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REPORT

OF

THE AUDITOR-GENERAL

ON

MERU COUNTY EXECUTIVE STAFF
HOUSING FUND

FOR THE YEAR ENDED
30 JUNE, 2019





**MERU COUNTY EXECUTIVE STAFF HOUSING
FUND**

**AMENDED FINANCIAL STATEMENTS FOR THE PERIOD ENDED ON
JUNE 30, 2019**

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

MERU COUNTY EXECUTIVE STAFF HOUSING FUND
Reports and Financial Statements
For the Period ended 30th June, 2019

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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The Meru County Executive Staff Housing Fund is established by and derives its authority and accountability from The Meru County Executive Staff Housing Fund Regulations 2015.

The Fund is wholly owned by the County Government of Meru and is domiciled in Kenya.

The fund's objective is to provide loans for the purchase, development, renovation or repair of residential houses to members of staff and raise funds for the implementation of the objectives stated.

The Fund's principal activity is to provide housing loans to members of staff.

b) Principal Activities

The principal activity of the Fund is to provide housing loans to members of staff.

c) Board of Trustees/Fund Administration Committee

Ref	Name	Position
1	Rufus Miriti Mwereria	Administrator
2	Julius Mbaabu M'Inoti	Chairman
3	Samuel Murithi	Secretary
4	Joseph Kabii Chabari	Accounting Officer

d) Key Management

Ref	Name	Position
1	Rufus Miriti Mwereria	Administrator
2	Julius Mbaabu M'Inoti	Chairman
3	Samuel Murithi	Secretary
4	Joseph Kabii Chabari	Accounting Officer

e) Registered Offices

P.O. Box 120
County Headquarters Building
Meru – Nanyuki Road
Nairobi, KENYA

f) Fund Contacts

Telephone: (+254726980225)

g) Fund Bankers

MERU COUNTY EXECUTIVE STAFF HOUSING FUND
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1. Kenya Commercial Bank

h) Independent Auditors

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

i) Principal Legal Adviser



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

2. THE BOARD OF TRUSTEES

Name	Details of qualifications and experience
<p>1. Rufus Miriti Mwereria</p> 	<p>DOB: 1962</p> <p>ACADEMIC QUALIFICATIONS: PhD in Education-Mount Kenya University, M.A in Policy and Leadership- Moi University(2010-2012), Bachelor of Education-Moi University(1990-1994), Post graduate diploma in Administration and Management- Cambridge University.</p> <p>WORK EXPERIENCE: County Secretary-Meru County Government(To date), Director TSC Mbeere South(2015-2017), Deputy District Education Officer(2000-2014), Teacher at Maua Girls(1994-1999).</p>
<p>2. Julius Mbaabu M’Inoti</p> 	<p>DOB: 24.08.1962</p> <p>ACADEMIC QUALIFICATIONS: Bachelor of Laws, University of Nairobi- 1984 to 1987, Diploma in in Legal Systems, Kenya School of Law-1988, Member of the Law Society of Kenya, Member of the International Commission of Jurist, Current chairman of the Board of Management, Meru Teachers College.</p> <p>WORK EXPERIENCE: Managing partner at Mbaabu M’Inoti & Co. Advocates from 1990 to date, Notary Public & Commissioner for Oaths, State Counsel-State Law Office Nairobi(1989-1990).</p>
<p>3. Samuel Murithi</p> 	<p>DOB: 23.06.1967</p> <p>ACADEMIC QUALIFICATIONS: Bachelor of Education, University of Nairobi- 1996 to 2000, Master of Education, University of Nairobi- 2001 to 2004, Phd in Education Administration and Management, University of Nairobi-2013 to date.</p> <p>WORK EXPERIENCE: Examination/Curriculum Master at Gikurune Secondary School(1989-2003), Lecturer at Meru Teachers College (2004-2014), Part time lecturer: University of Nairobi and Mount Kenya University (2006-2017), Director Administration and Human Resource (Jan. 2018 to date), Director Education and Community Mobilization Alcoholic Drinks and Control Boards (2015 to Jan. 2018), Chief of Staff County Government of Meru (2014-2015).</p>
<p>4. Joseph Kabii Chabari</p> 	<p>DOB: 1982</p> <p>ACADEMIC QUALIFICATIONS: MBA (Finance option) at Meru University of Science and Technology (2011-2013), Business Administration (Accounting option) at Maseno University (2004 - 2008), CPA (K) from KASNEB (2006 – 2008)</p> <p>WORK EXPERINCE: Chief Officer Finance Economic Planning and ICT- Meru County Government of Meru (Feb. 2018 to date), Chief Accountant- The National Treasury (Jan. 2008 – 2018).</p>

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3. MANAGEMENT TEAM

Name	Details of qualifications and experience
<p>1. Rufus Miriti Mwereria</p> 	<p>DOB: 1962</p> <p>ACADEMIC QUALIFICATIONS: PhD in Education-Mount Kenya University, M.A in Policy and Leadership- Moi University(2010-2012), Bachelor of Education-Moi University(1990-1994), Post graduate diploma in Administration and Management- Cambridge University.</p> <p>WORK EXPERIENCE: County Secretary-Meru County Government(To date), Director TSC Mbeere South(2015-2017), Deputy District Education Officer(2000-2014), Teacher at Maua Girls(1994-1999).</p>
<p>2. Julius Mbaabu M’Inoti</p> 	<p>DOB: 24.08.1962</p> <p>ACADEMIC QUALIFICATIONS: Bachelor of Laws, University of Nairobi- 1984 to 1987, Diploma in in Legal Systems, Kenya School of Law-1988, Member of the Law Society of Kenya, Member of the International Commission of Jurist, Current chairman of the Board of Management, Meru Teachers College.</p> <p>WORK EXPERIENCE: Managing partner at Mbaabu M’Inoti & Co. Advocates from 1990 to date, Notary Public & Commissioner for Oaths, State Counsel- State Law Office Nairobi(1989-1990).</p>
<p>3. Samuel Murithi</p> 	<p>DOB: 23.06.1967</p> <p>ACADEMIC QUALIFICATIONS: Bachelor of Education, University of Nairobi- 1996 to 2000, Master of Education, University of Nairobi- 2001 to 2004, Phd in Education Administration and Management, University of Nairobi-2013 to date.</p> <p>WORK EXPERIENCE: Examination/Curriculum Master at Gikurune Secondary School(1989-2003), Lecturer at Meru Teachers College (2004-2014), Part time lecturer: University of Nairobi and Mount Kenya University (2006-2017), Director Administration and Human Resource (Jan. 2018 to date), Director Education and Community Mobilization Alcoholic Drinks and Control Boards (2015 to Jan. 2018), Chief of Staff County Government of Meru (2014-2015).</p>

4. Joseph Kabii Chabari



DOB: 1982

ACADEMIC QUALIFICATIONS: MBA (Finance option) at Meru University of Science and Technology (2011-2013), Business Administration (Accounting option) at Maseno University (2004 - 2008), CPA (K) from KASNEB (2006 – 2008)

WORK EXPERINCE: Chief Officer Finance Economic Planning and ICT- Meru County Government of Meru (Feb. 2018 to date), Chief Accountant- The National Treasury (Jan. 2008 – 2018).

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4. FUND CHAIRPERSON'S REPORT

On behalf of The Housing Loans Management Committee, I take this opportunity to present to you the 12 months ended 30th June 2019 reports and financial statements pursuant to section 18 (d) of The Meru County Executive Staff Housing Fund Regulations 2015 which states that: within a period of three months after the end of each financial period, the Committee shall submit to the Auditor-General, the accounts of The Fund together with:

- a) A statement of financial position at the thirtieth day of June;
- b) A statement of comprehensive income;
- c) A statement of cash flow for the year ended;
- d) A summary of significant accounting policies and other explanatory information.

The Committee confirms that The Fund remains focused on its mandate and is in the process of setting structures that will facilitate the performance of the functions of The Committee.

Signed:  _____

Julius Mbaabu M'Inoti

5. REPORT OF THE FUND ADMINISTRATOR

The Meru County Executive Staff Housing Fund Regulations 2015 requires the Fund to prepare financial statements at the end of each financial period. I am pleased to present the financial statements for the board, for the period ended 30th June 2019.

The Meru County Executive Staff Housing Fund was created in 2015, through a regulation of the County Assembly of Meru, to provide loans for the purchase, development, renovation or repair of residential houses to members of staff and raise funds for the implementation of the objectives stated.

This corporation officially began its operations in May 2016 and the Financial Year 2018-19 being its third year of operation.

The performance reflected in these statements covers a period of 12 months for the expenditure incurred through the balance brought forward from the previous Financial Period.

A total of Kshs. 150,000,000 was budgeted in 2018/19 and thereafter transferred to the Fund during the Financial Year.

I therefore appreciate and request the Meru County Government for more financial and human resource support so as to realize the growth and development of this Fund.

On behalf of the Housing Loans Management Committee, staff, Meru County residents and other stakeholders, I thank the Meru County Government for providing support to this Fund.

Signed: _____



Rufus Miriti Mwereria

6. CORPORATE GOVERNANCE STATEMENT

The practice of good corporate governance ensures the delivery of sustainable value for our County as well as meeting the needs of our stakeholders. Good Corporate Governance practices involve the adoption of ethically driven business policies, procedures and processes. The Housing Loans Management Committee is committed to ensuring that the needs of our investors and the expectations of our stakeholders are met while safeguarding the Funds' assets. We believe that our business affairs should be carried out in a fair, transparent and accountable manner. It is our integral responsibility to disclose timely and accurate information on our financials and performance as well as provide the leadership and effective governance for the Board.

This report highlights the main corporate governance structures and practices that guide the Board:

Governance Principles and Guidelines

The Committee is at the core of the Funds' governance practice for protection of long-term interests of all stakeholders. Guided by the principles of best practices in governance, the Committee performs its duties in the interest of the Fund to improve stakeholder's value and for continued sustainability of the Fund. The Fund provides oversight to Management and ensures the staff operates within the Code of Conduct and Ethics and Public Officers and Ethics.

Responsibilities of the Committee

The primary responsibility of the Committee is to provide leadership and strategic direction to the Fund. Committee members are expected to exercise the highest degree of care, skill and diligence in discharging their duties. The responsibilities of the Committee include: (i) Process applications for loans in accordance with the existing terms and conditions of borrowing.

(ii) Liaise with the housing company (if any) to set up a revolving fund for the disbursement of the loans. (iii) Supervise day to day running of the fund.

Capacity Building for the Committee

Regular training and development programmes are developed to equip the Committee with necessary skills for effective discharge of their mandate. Newly appointed members undergo a detailed induction training to enhance their understanding of the nature of our Funds performance and strategy.

Composition of the Committee

The current Committee headed by the Chairman is composed of four members exclusive of the Credit Analyst. The constitution of the Committee consists of one member nominated by resolution of public service board who shall be the Chairperson; the County Secretary who shall be the administrator of the fund; the county Chief Officer for finance who shall be the accounting officer and the county director in charge of human resource who shall be the secretary to the Committee and ex officio member.

Accountability and audit

In line with the Meru County Executive Staff Housing Fund Regulations, 2015. The fund administrator is required to prepare annual financial statements for the Fund in each Accounting period. The statements should reflect a true and fair view of the financial position of the Fund as at the end of each financial period and should include: annual financial statements; the administrators' report; and the auditor's report on the financial statements. Members ensure that the Funds' financial statements are audited each financial period. They are responsible for ensuring that suitable accounting policies are consistently applied supported by reasonable and prudent judgments, and estimates. They also ensure that applicable accounting standards are followed as well as the duty to exercise care, skill and diligence. In addition, the Committee is responsible for ensuring that the Fund keeps reasonable and accurate accounting records showing and explaining the transactions and financial position of the Fund in compliance with prescribed accounting standards.

Internal Controls

Internal control systems are designed to meet particular needs of the Fund and mitigate the risks, with attendant procedures intended to provide effective internal financial control. The Committee is obligated to maintain a sound system of internal controls to safeguard public finances. These include taking reasonable steps to ensure that the control and regulatory systems are continuously maintained and monitored. While the systems in place are intended to provide reasonable controls, absolute assurance cannot be guaranteed.

Committee' Remuneration

During every Committee meeting, present members are entitled to a sitting allowance. The Chairperson receives a travel allowance.



Chairman



Administrator

MERU COUNTY EXECUTIVE STAFF HOUSING FUND
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7. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial period, the Administrator of the Meru County Executive Staff Housing Fund established by The Meru County Executive Staff Housing Fund Regulations, 2015 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 County Public 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 period ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 Administrator of the County Public 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 The Meru County Executive Staff Housing Fund Regulations. 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 period ended June 30, 2019, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Administrator of the County Public 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

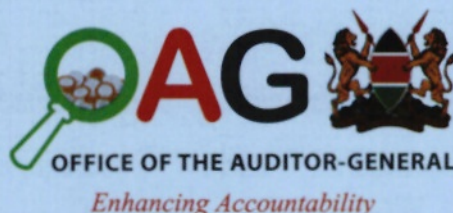
The Fund's financial statements were approved by the Committee on 20/09/2019 and signed on its behalf by:



Administrator of the County Public Fund

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
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HEADQUARTERS
Anniversary Towers
Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MERU COUNTY EXECUTIVE STAFF HOUSING FUND FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Meru County Executive Staff Housing Fund set out on pages 12 to 33, which comprise of the statement of financial position as at 30 June, 2019, and the statement financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Meru County Executive Staff Housing Fund as at 30 June, 2019, and of its financial performance and of its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012, the County Governments Act, 2012 and The Meru County Executive Staff Housing Fund Regulations, 2015.

Basis for Qualified Opinion

1. Current Receivables from Exchange Transactions

As disclosed in Note 4(a) to the financial statements, the statement of financial position reflects a balance of Kshs.29,964,365 in respect to current receivables from exchange transactions. However, review of the repayment schedules revealed that nine (9) former County Executive Committee (CECs) members had not paid a principal of Kshs.2,920,022 and accrued interest of Kshs.1,724,951 totaling Kshs.4,644,973 as at 30 June, 2019. Further, a former County Secretary, former Chief of Staff and former Legal Officer had not paid a total of Kshs.1,192,383 in both principal and interest as at 30 June, 2019.

As a result of the failure to comply with the law, the recoverability of loans owed by the former county officials is doubtful and may result into loss of public funds.

2. Long Term Loan Receivables from Exchange Transactions

The statement of financial position and as disclosed under Note 4b to the financial statements reflects Kshs.337,523,528 in respect to long term receivables from exchange transactions. The balance related to loans owed by former and current County Executive Committees Members (CECM) and other staff. The Salaries and Remuneration Commission (SRC) circular reference number SRC/TS/CG/3/61 Vol. IV/ (28) dated 29 November, 2016, stipulates that car and mortgage loans to Members of County Assemblies (MCAs) and County Executive Committee (CECs) are repayable within 5 years or before the end of their work contracts whichever is earlier. However, the following anomalies were noted:

1.1 Receivables from Former Officers

The balance included Kshs.127,735,754 in respect to outstanding loan balances owed from nine (9) former County Executive Committee Members (CECM), former County Secretary, former Chief of Staff and former Legal Officer. The loans were issued between 20 January, 2017 and 04 March, 2017 with the repayment period of 20 years for 11 members and 12 years for one member. Further, evidence of the charges registered on the properties financed through the loans as required under Regulation 15(1) of the Meru County Executive Staff Housing Fund Regulations, 2015 were not provided for audit review.

1.2 Receivable from Current Officers

The balance also included Kshs.186,083,926 in respect to outstanding loan balances owed by thirty-one (31) Meru County Executive officers comprising of Governor, Deputy Governor, eight (8) CECMs, fourteen (14) Chief Officers (COs), three County Public Service Board (CPSB) Members, County Secretary, CPSB Secretary, Director Monitoring and Evaluation and Administrative Officer. Records provided for audit review showed that the repayment period for the loans ranged between four (4) to twenty (20) years. However, review of the employment contracts for the loanees revealed that the contract periods for the thirty-one (31) officers were shorter than the loan repayment periods.

In the circumstances, the Fund was in breach of the Law and the full recoverability of the loans was doubtful and may result into loss of public funds.

2. Presentation of the Financial Statements

2.1 Lack of Key Entity Information

The annual report and financial statements did not include information on Management Discussion and Analysis, Corporate Social Responsibility Statement and Report of the Trustees as required by the financial reporting guidelines issued by the PSASB.

3.2 Incorrect Period of the Financial Statements Comparative Balances

The comparative balances in the financial statements and the Notes are indicated as relating to the financial year 2017/2018. However, the prior year's audited financial statements were for eighteen (18) months period ended 30 June, 2018 and not for the financial year 2017/2018.

In the circumstances, the presentation of the Fund's financial statements is not in compliance with IPSAS requirements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Meru County Executive Staff Housing Fund 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. Budget Control and Performance

The statement of comparison of budget and actual amounts reflects Kshs.7,793,899 and Kshs.1,975,414 in respect to approved revenue and expenditure budgets. However, the Fund did not provide an approved budget for the financial year 2018/2019 contrary to Section 130(1)(b) and 131 of the Public Finance Management Act, 2012 which requires that the County Executive Committee Member for Finance shall submit to the County Assembly for approval, a list of all County Government entities that are to receive funds appropriated from the budget of the County Government. It was therefore, not possible to carry out analysis of budgetary control and performance for both revenue and expenditure budgets of the Fund.

Further, balances of the original budget estimates and budgetary adjustments have not been reflected in the statement of comparison of budget and actual amounts.

2. Unresolved Prior Year Audit Matters

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, matters reported in the prior years' audit reports remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCE

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 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 Board of Trustees

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material 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 with limited assurance as to 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 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 control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control 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 control 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 control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern 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 Meru County Executive Staff Housing 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 Meru County Executive Staff Housing Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

14 October, 2021

8. FINANCIAL STATEMENTS

8.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD ENDED 30TH JUNE 2019

	Note	(JULY 2018- JUNE 2019)	FY 2017/2018
		KShs	KShs
Revenue from non-exchange transactions			
Public contributions and donations		-	-
Transfers from the County Government		-	-
Fines, penalties and other levies		-	-
Revenue from exchange transactions			
Interest income	1	7,793,899	6,736,626
			-
Total revenue		7,793,899	6,736,626
Expenses			
Fund administration expenses		-	-
Staff costs		-	-
General expenses	2	1,975,414	3,546,974
Finance costs			-
Total expenses		1,975,414	3,546,974
Other gains/losses			
Gain/loss on disposal of assets		-	-
Surplus/(deficit) for the period		5,818,485	3,189,652


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8.2. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

	Note	(JULY 2018- JUNE 2019)	FY 2017/2018
		KShs	KShs
Assets			
Current assets			
Cash and cash equivalents	3	37,165,488	81,597,297
Current Receivables from exchange transactions	4a	29,964,365	8,745,324
Total current assets		67,129,853	90,342,621
Non-current assets			
Non- Current Receivables from Exchange Transactions	4b	337,523,528	158,524,410
Property, plant and equipment	5	205,882	173,747
Total Non-current assets		337,729,410	158,698,157
Total assets		404,859,263	249,040,778
Liabilities			
Current liabilities			
Pre- payment			-
Non-current liabilities			
Non-current employee benefit obligation		-	-
Long term portion of borrowing			-
Total liabilities		-	-
Net assets			
Revolving Fund	6	395,851,126	245,851,126
Accumulated surplus		9,008,137	3,189,652
Total net assets and liabilities		404,859,263	249,040,778

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 20/09/ 2019 and signed by:


 Administrator of the Fund
 Rufus Miriti Mwereria


 Fund Accountant,
 Name: Joseph Chabari
 ICPAK NO: 14516

8.3. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30th JUNE 2019

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2017	190,851,126	-	-	190,851,126
Surplus/(deficit) for the period	-	-	-	-
Funds received during the year	55,000,000	-	-	55,000,000
Revaluation gain	-	-	-	-
Surplus/(deficit) for the period	-	-	3,189,652	3,189,652
Balance as at 30 June 2018	245,851,126	-	3,189,652	249,040,778
Balance as at 1 July 2018	245,851,126	-	3,189,652	249,040,778
Surplus/(deficit) for the period	-	-	5,818,485	5,818,485
Funds received during the year	150,000,000	-	-	150,000,000
Revaluation gain	-	-	-	-
Balance as at 30 June 2019	395,851,126	-	9,008,137	404,859,263

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8.4. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE 2019

	Note	(JULY 2018-JUNE 2019)	FY 2017/2018
		KShs	KShs
Cash flows from operating activities			
Receipts			
Interest received	7	5,448,156	6,736,626
Total Receipts		5,448,156	6,736,626
Payments			
General expenses	2	1,952,549	3,522,153
Total Payments		1,952,549	3,522,153
Net cash flows from operating activities		3,495,607	3,214,473
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		55,000	198,568
Loan disbursements paid out	8	208,907,840	176,848,864
Net cash flows used in investing activities		208,962,840	177,047,432
Cash flows from financing activities			
Transfers from the County Government	6	150,000,000	245,851,126
loan repayment	7	11,035,424	9,579,129
Net cash flows used in financing activities		161,035,424	255,430,255
Net increase/(decrease) in cash and cash equivalents		- 44,431,809	81,597,297
Cash and cash equivalents at 1 JULY 2018		81,597,297	81,597,297
Cash and cash equivalents at 30 JUNE 2019	3	37,165,488	81,597,297

8.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2019

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2019	2019	2019	2019	2019	2019
Revenue	KShs	KShs	KShs	KShs	KShs	
Interest income	-	-	7,793,899	7,793,899	-	100
Total income	-	-	7,793,899	7,793,899	-	100
Expenses						
General expenses	-	-	1,975,414	1,975,414		100
Total expenditure	-	-	1,975,414	1,975,414		100
Surplus for the period	-	-	5,818,485	5,818,485		100

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8.6. 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 2019

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 2019

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;

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Standard	Effective date and impact:
	<ul style="list-style-type: none">• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
IPSAS 42: Social Benefits	Applicable: 1st January 2022 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: (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.

c) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2019.

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 FY 2018/2019 was approved by the County Assembly in June 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded additional appropriations of Ksh. 150,000,000 on the FY 2018/2019 budget following the governing body's approval.

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 of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Property, plant and equipment

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

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.

The useful life of the intangible assets is assessed as either finite or indefinite.

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

Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

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

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

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 Entity creates and maintains reserves in terms of specific requirements.

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

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 financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

17. Comparative figures

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

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 County Public Fund established by The Meru County Executive Staff Housing Fund Regulations, 2015 under the Department of Finance, Economic Planning & ICT. Its ultimate parent is the County Government of Meru.

20. Currency

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

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.

State all judgements, estimates and assumptions made

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

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note xxx.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

22. 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 entity'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 entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount KShs	Fully performing KShs	Past due KShs	Impaired KShs
At 30 June 2019				
Receivables from exchange transactions	404,859,263	404,859,263	0	0
Bank balances	37,165,488	37,165,488	0	0
Total	442,024,751	442,024,751	0	0
At 30 June 2018				
Receivables from exchange transactions	249,040,778	249,040,778	0	0
Bank balances	81,597,297	81,597,297	0	0
Total	330,638,075	330,638,075	0	0

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from receivable exchange transactions.

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

The table below represents 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 the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	KShs	KShs	KShs	KShs
At 30 June 2019				
Current portion of borrowings	-	-	29,964,364	29,964,364
Total	-	-	29,964,364	29,964,364
At 30 June 2018				
Current portion of borrowings	-	-	8,745,324	8,745,324
Total	-	-	8,745,324	8,745,324

c) Market risk

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

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

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

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

d) Capital risk management

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

	2019	2018
	KShs	KShs
Revolving fund	395,851,126	245,845,126
Accumulated surplus	9,008,137	3,189,652
Total funds	404,859,263	249,040,778
Total borrowings	208,907,840	176,848,864
Less: cash and bank balances	(37,164,488)	(81,597,297)
Net debt/(excess cash and cash equivalents)	171,743,352	95,251,567
Gearing	42%	38%

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8.7. NOTES TO THE FINANCIAL STATEMENTS

1. Interest Income

Description	(JULY 2018-JUNE 2019)	FY 2017/2018
	KShs	KShs
Interest income from loans(mortgage or car loans)	7,793,899	6,736,626
Total interest income	7,793,899	6,736,626

2. General Expenses

Description	(JULY 2018-JUNE 2019)	FY 2017/2018
	KShs	KShs
Consumables	-	-
Electricity and water expenses	-	-
Fuel and oil costs	-	-
valuation and Insurance costs	-	-
Subsistence Allowances	1,625,000	807,400
Printing and stationery	-	-
Fund Committee Allowance	308,000	-
Security costs	-	-
Telecommunication	-	-
Hospitality	-	-
Depreciation and amortization costs	22,865	24,821
Other expenses	19,549	2,714,753
Total	1,975,414	3,546,974

3. Cash and Cash Equivalents

Description	FY 2018/2019	FY 2017/2018
	KShs	KShs
Fixed deposits account	-	-
On – call deposits	-	-
Current account	37,165,488	81,597,298
Others	-	-
Total cash and cash equivalents	37,165,488	81,597,298

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

		(JULY 2018-JUNE 2019)	FY 2017/2018
Financial institution	Account number	KShs	KShs
c) Current account			
Kenya Commercial bank	1204408971	37,165,488	81,597,298
Bank B		-	-
Sub- total		37,165,488	81,597,298

4. Receivables from Exchange Transactions

Description	FY 2018/2019	FY 2017/2018
	KShs	KShs
4a Current Receivables from exchange transactions		
Interest receivable	2,345,743	5,047,160
Current loan repayments due but not paid	27,618,622	8,745,323
Total Current receivables from Exchange Transactions	29,964,365	13,792,484
4b Non- Current Receivables from Exchange Transactions		
Long term loan repayments due	337,523,528	232,608,320
Total Non-Current receivables from Exchange Transactions	337,523,528	232,608,320
Total receivables from exchange transactions	367,487,893	246,400,804

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Property, Plant and Equipment

	Land and	Motor vehicles	Furniture and fittings	Computers and	Total
	Buildings			office equipment	
Cost	KShs	KShs	KShs	KShs	KShs
At 1 st July 2017	-	-	-	-	-
Additions	-	-	-	198,568	198,568.00
Disposals	-	-	-	-	-
Transfers/adjustments	-	-	-	-	-
At 30 th June 2018	-	-	-	198,568	198,568
At 1 st July 2018	-	-	-	-	-
Additions	-	-	-	198,568	198,568
Disposals	-	-	-	55,000	55,000
Transfer/adjustments	-	-	-	-	-
At 30 th June 2019	-	-	-	253,568.00	253,568.00
Depreciation and impairment					
At 1 st July 2017					
Depreciation	-	-	-	24,821	24,821
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-
At 30 th June 2018	-	-	-	24,821	24,821
At 1 st July 2018					
Depreciation				22,865	22,865
Disposals					
Impairment					
Transfer/adjustment					
At 30 th June 2019				47,686	47,686
Net book values					
At 30 th June 2018				173,747	173,747
At 30 th June 2019				205,882	205,882

6. Revolving Fund

Description	(JULY 2018-JUNE 2019)	FY 2017/2018
	KShs	KShs
Balance b/f	245,851,126	245,851,126
Transfers from the county government	150,000,000	
Payments by County on behalf of the entity	-	-
Total	395,851,126	245,851,126

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7. Loan Repayments

Description	(JULY 2018-JUNE 2019)	FY 2017/2018
	KShs	KShs
Loan principal	11,035,424	9,579,129
Intrest received	5,448,156	-
Total other income	16,483,580	9,579,129

8. Loan Disbursements Paid Out

Description	FY 2018/2019	FY 2017/2018
	KShs	KShs
Loan disbursments	208,907,840	179,500,000
Interest on loans from banks	-	-
Total	208,907,840	179,500,000

9. 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/scheme is related to the following entities:

- a) The County Government
- b) The Parent County Government Ministry
- c) Key management
- d) Board of Trustees

b) Related party transactions

	2018/2019	2017/2018
	KShs	KShs
Transfers from County Government	150,000,000	245,851,126

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

c) Key management remuneration

	2018/2019	2017/2018
	KShs	KShs
Fund Committee Allowances	308,000	-
Total	308,000	-

10. PROGRESS ON FOLLOW UP OF AUDITOR 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 timeframe within which we expect the issues to be resolved.

Reference No. on the external Audit Report	Issue Observations from Auditor	Management Comments	Focal Point	Status	Timeframe
1.1	Overstatement of current receivables by Ksh.5,047,160 which had not been earned as at 30 th June 2018	The Amortization Schedule will be analyzed to rectify the issue	Antony Gitobu Mbae- Credit Analyst	Not Resolved	31 st January 2020
1.2	Long-term schedules availed for audit reflects a balance of Ksh.161,350,526 resulting to an unexplained and unreconciled variance of Ksh.2,826,116.	The Amortization Schedule will be analyzed to rectify the issue	Antony Gitobu Mbae- Credit Analyst	Not Resolved	31 st January 2020