

STAFF MORTGAGE SCHEME ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2021



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

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1. Abbreviations, Acronyms and Glossary of Terms

A. Abbreviations and Acronyms

AWAK	Association of Women Accountants of Kenya
CBS	Chief of the Order of the Burning Spear
CHRP	Certified Human Resource Professional
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
ISACA	Information Systems Audit and Control Association
KSHS	Kenya Shillings
OAG	Office of the Auditor-General
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
SRC	Salaries and Remuneration Commission
TNT	The National Treasury

B. Glossary of Terms

Fiduciary management- Members of management entrusted directly with the responsibility and trust for the Scheme's financial resources.

Accrual basis- a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

Assets- are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Expenses- are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

Revenue- is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

2. Key Entity Information and Management

The Office of the Auditor-General Staff Mortgage Scheme is a Revolving Fund established and administered as provided for under Section 24 (4) (5) (6) and (7) of the PFM Act, 2012 and Section 127 (1) (2) of the PFM (National Government) Regulations, 2015. Further, the Scheme was established pursuant to the Salaries and Remuneration Commission Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) dated 17 December, 2014 which provided the Guidelines for access of Mortgage and Car Loan benefits by state and public officers. The objective of the Scheme is to provide mortgage loans to the Office of the Auditor-General employees to enable them to acquire or build decent residential houses.

For proper management of the Scheme as provided for in the SRC Circular under reference, the Office of the Auditor-General developed Staff Car loan and Mortgage Scheme Guidelines and adopted the PFM Act, 2012 and PFM Regulations, 2015 to guide in the operationalization of the Scheme.

The Auditor-General appointed a Management Committee which consists of eight members, including the Chairman and a Secretary, to undertake the day to day running of the Scheme on her behalf. The main role of the Committee is to evaluate and approve applications and submit the same for processing by the appointed Service Provider (Housing Finance Company Limited) in line with the Guidelines.

The Scheme is wholly owned by the Office of the Auditor-General and is domiciled in Kenya.

a) Principal Activities

The principal activity of the Scheme is to provide mortgage loans to the Office of the Auditor-General employees to enable them to acquire or build decent residential houses either for their current or ultimate occupation upon retirement.

b) Scheme Management Committee

S/No.	Name	Position
1.	FCPA Nancy Gathungu, CBS	Scheme Administrator
2.	CPA William Agunda	Chairman - retired in March 2023
3.	CPA Dr. Leonard Lari	Chairman - appointed in April 2023
4.	CPA Joyce Mbaabu	Vice Chairman
5.	CPA Charles Mwitari	Member
6.	CPA Hannah Mwaura	Member
7.	CPA Mercy Mukiri	Member
8.	CPA Ronald Bichanga	Member
9.	CS Milcah Ondiek	Member
10.	CHRP Ben Muok	Secretary

c) Fiduciary Oversight Arrangements

No.	Name	Position
1.	CPA Martha Mbau	Director, Internal Audit
2.	CPA William Agunda	Scheme Committee Chairman
3.	CHRP Ben Muok	Scheme Committee Secretary

d) Registered Offices

Scheme's Headquarters

Office of the Auditor-General
Anniversary Towers 3rd Floor
University Way
P.O. Box 30084-00100, Nairobi, Kenya
Telephone: (254) 020-3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

e) Scheme Contacts

OAG Headquarters, Nairobi
Anniversary Towers 3rd Floor
University Way
P.O. Box 30084-00100
Telephone: (254) 020-3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

f) Scheme Bankers

Housing Finance Company Limited Mortgage Division
Head Office: Rehani House, Kenyatta Avenue / Koinange Street
P.O. Box 30088-00100
Mobile number: 0709 438 000 & 0709 438 888
Email: customer.service@hfgroup.co.ke or mybank@hfgroup.co.ke

g) Independent Auditors

PKF Kenya LLP
Certified Public Accountants
P.O. Box 14077, 00800
Nairobi, Kenya

h) Principal Legal Adviser

The Attorney General,
State Law Office and Department of Justice
Harambee Avenue
P.O. Box 40112-00200 City Square
Nairobi, Kenya

3. The Scheme Management Committee



CPA William Agunda

CPA Agunda is the Chairman of the Management Committee. He holds a Bachelor of Commerce degree (Accounting) and is a Certified Public Accountant (K). He has over 30 years' experience in Financial audit in the public sector. CPA Agunda is a Deputy Auditor General - Financial Audit Services in the Office of the Auditor-General.



CPA Joyce Mbaabu

CPA Mbaabu is the Vice Chairman of the Management Committee. She holds a Bachelor of Commerce (Business Administration) degree and is a Certified Public Accountant (K). She has over 30 years' experience in Financial audit in the public sector. She is a member of the Association of Women Accountants of Kenya (AWAK) and the Institute of Certified Public Accountants (ICPAK). CPA Mbaabu is a Deputy Auditor General in charge of Corporate Services in the Office of the Auditor-General.



CHRP Ben Muok

CHRP Muok is the Secretary of the Management Committee. He played a central role in the establishment and operationalization of the Scheme. He holds a Bachelor of Commerce and a Master of Business Administration in Human Resource Management. He has a wealth of experience in Organizational Development, Change Management and development of policies and strategy frameworks in the public sector spanning over 20 years. Ben is a Practicing member of the Institute of Human Resource Management (Kenya). CHRP Muok is a Deputy Director Human Resource in the Office of the Auditor-General.



CPA Hannah Mwaura

CPA Mwaura is a member of the Management Committee. She holds a Master of Business Management (Strategic Management), Bachelor of Commerce (Business Management) degree and is a Certified Public Accountant (K). She is a member of the Association of Women Accountants of Kenya (AWAK) and the Institute of Certified Public Accountants (ICPAK). CPA Mwaura is a Deputy Director of Audit in the Office of the Auditor-General.

The Scheme Management Committee (Continued)



CPA Charles Mwitari

CPA Mwitari holds a Bachelor of Commerce degree and a Master's degree in Business Administration. He has over 20 years working experience in private and public sector with particular attention to financial management, budgetary control, statutory and management reporting, Internal controls assessment and risk management. He is a Certified Public Accountant (K), Certified Public Secretary (CPS) and Certified Pension Trustee (TDPK). CPA Mwitari serves as a Director of Audit.



CPA Ronald Bichanga

CPA Bichanga is a member of the Management Committee. He had over 35 years work experience in Financial Audit in the public sector. He is a Certified Public Accountant (K). CPA Bichanga is a Director of Audit in the Office of the Auditor-General.



CS Milkah Ondiek

CS Ondiek is a member of the Management Committee. She holds a Bachelor's degree in Law (LLB) and a post graduate diploma from Kenya School of Law. CS Ondiek is a Manager Legal services in the Office of the Auditor-General and is the legal advisor to the Committee. She is also an Advocate of the High Court of Kenya.



CPA Mercy Mukiri

CPA Mukiri is a member of the Management Committee. She holds a Bachelor of Commerce (Business Management) degree and is a Certified Public Accountant (K). She has over 25 years' experience in Financial auditing in the public sector. CPA Mukiri is a Director of Audit in the Office of the Auditor-General.

4. Chairman's Report



The Mortgage Scheme is a Revolving Fund for OAG staff established and administered as provided under Section 24 (6) (7) of the PFM Act, 2012 and section 127 (1) (2) of the PFM (National Government) Regulations, 2015. Further the Fund was established pursuant to SRC Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) dated 17 December, 2014.

The Scheme is administered by the Auditor-General through a Management Committee. The role of the Management Committee is to evaluate and recommend applications for processing in line with the regulations. Further, the Auditor-General has enlisted the services of a financial institution (Housing Finance Company Limited) to provide professional advisory services to the Management Committee which includes but not limited to financial, legal and valuation services.

The Scheme was established and operationalized with effect from 13 June, 2016 to enable employees acquire decent residential houses either for their current or ultimate occupation upon retirement. The initial seed capital of Kshs.70 million was transferred to the Housing Finance Company Limited account on 25 July, 2016.

During the year under review, a total of 35 applications were approved and loans totalling Kshs.213,587,293 disbursed. By the end of the financial year 2020/21, a total of Kshs.755,395,200 had been transferred to the Scheme from the Office of the Auditor-General and loans amounting to Kshs.780,882,010 disbursed to OAG Staff.

In the same period, the Scheme incurred expenses of Kshs.18,900,838 consisting of management costs of Kshs.17,787,484 and withholding tax on interest of Kshs.1,113,353 charged at the prevailing tax rate of 15%.

The main challenges witnessed during the period under review included the following:

- ✚ Non-compliance with the requirements by some applicants leading to failure to secure mortgage funding.
- ✚ Lengthy turnaround/processing time for mortgage applications.

Way forward

The Scheme will continue to lobby The National Treasury and National Assembly for additional funding and do more sensitization to the staff on the Scheme to improve on the facility uptake.

I look forward to seeing the Scheme facilitate more OAG staff to realize their dreams of owning residential houses in the coming years.

Signed: _____



CPA Dr. Leonard Lari
Management Committee Chairman
ICPAK Member: 2981

Date: 09-08-2024

5. Report of the Scheme Administrator



It is with great pleasure that I present to you the Scheme financial statements for financial year 2020/2021.

The financial statements presented comprises of the statement of financial performance, statement of financial position, statement of changes in net assets and the statement of cash flows.

The Scheme ensures prudent financial management and reporting in line with Public Financial Management Act, 2012, Public Financial Management Regulations 2015, and International Public Sector Accounting Standards (IPSAS). As a result, the Scheme has been efficient and effective in meeting its mandate.

The implementation and administration of the Scheme is overseen by the Staff Mortgage and Car Loan Committee in liaison with the external service provider, being Housing Finance Company Limited. The Committee meets regularly to consider loan applications and make recommendations to the service providers.

I wish to report that during the year under review, the Scheme continued to undertake its mandate of providing mortgage loans to the successful applicants for acquisition of decent residential houses. **Thirty-five (35)** OAG staff members were facilitated to acquire residential houses with loans worth **Kshs.213,587,293** disbursed. Since inception, the Scheme has disbursed loans totalling **Kshs.780,882,010** to **one hundred and seventeen (117)** successful applicants.

During the year under review, the Scheme received Exchequer funding of **Kshs.44,106,200** through the Office of the Auditor-General to bring the total transfers since inception to **Kshs.755,395,200**. In addition, interest income of **Kshs.7,422,357** and **Kshs.17,787,484** was realized in respect to HFCK bank deposits and loans advanced to the beneficiaries.

Future Outlook of the Scheme

The future of the Scheme looks bright as the Office continues to lobby for more funds from the Exchequer to enable more employees benefit from the facility. In the long run, the Scheme is expected to be self-sustaining whereby, funds received from mortgage repayments will be adequate to cater for future funding demands.

Appreciation

I take this opportunity to express my sincere gratitude and appreciation to the Management Committee for steering the Scheme and to The National Treasury for the continued funding. I also appreciate the Staff members and all other stakeholders for their support without which the Scheme's objectives wouldn't have been realized.

I look forward to seeing more staff members benefit from the Scheme in the coming years which will go a long way in boosting morale and job performance.

Signed: _____



**FCPA Nancy Gathungu, CBS
Auditor-General/Fund Administrator**

Date: 09-08-2024

6. Statement of Performance Against Predetermined Objectives

Section 81 (2)(f) of the Public Financial Management Act, 2012 requires that at the end of each financial year, the Accounting Officer when preparing financial statements of each National Government Entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national entity's performance against predetermined objectives.

To achieve the objective of SRC Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) dated 17 December, 2014 that initialized the establishment of the Fund, the Office set the key strategic objective of the Scheme as being to attract, retain and motivate a competent, effective and efficient workforce.

The Fund's performance against predetermined objectives is as outlined below:

Objective	Outcome	Indicator	Performance
To retain and motivate a competent, effective and efficient workforce.	Increased number of Staff accessing the mortgage loans.	% of staff applicants issued with mortgage Loans	The number of staff who accessed the mortgage loans in FY2020/21 was 35. Cumulatively, 117 out of 192 loan applicants have benefited from the Scheme which represents 61% performance level.

7. Corporate Governance Statement

(i) The Mortgage Scheme

The Mortgage Scheme is a Revolving Fund established pursuant to the SRC Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) dated 17 December, 2014 and in accordance with Section 24(4)(5)(6) & (7) of the Public Finance Management Act, 2012 and Section 127 (1) (2) of the PFM (National Government) Regulations, 2015. Its mandate is to provide mortgage funding to OAG staff members for acquisition of residential houses.

The Scheme is committed to ensuring compliance with regulatory and corporate governance requirements. A formal governance structure with a committee at the apex is essential in establishment of a corporate governance framework in the Scheme. The operation of the Scheme is governed by PFM Act, 2012, PFM Regulations, OAG Staff Car Loan and Mortgage Scheme Guidelines, SRC Circulars, National Treasury Circulars and other relevant Legislations.

(ii) The Scheme Management Committee

The Guidelines for the Staff Car Loan and Housing Mortgage Scheme, 2016 (revised 2019) provides for the appointment of a Committee and Administrator of the Scheme. The Committee consists of eight members including the Chairman and a Secretary, appointed by the Auditor-General to oversee the running of the Scheme on her behalf. The Committee is responsible for the long-term strategic direction of the Scheme and it exercises leadership, integrity and judgement in direction the Scheme. The main role of the Committee is to evaluate and approve loan applications and submit the same for processing by the service provider (Housing Finance Company Ltd) in line with the Guidelines.

The Committee is provided with timely information that enables it to maintain full and effective control over strategic, financial, operational and compliance issues. The day to day running of the Scheme is delegated to the Scheme administrator/service provider but the Committee is responsible for establishing and maintain the Scheme's system of internal controls for the realisation of its mandate.

(iii) Committee Meetings

The Committee meets quarterly or as required in order to monitor and review the Scheme's operations. The Committee also plays an oversight role over financial and operational issues of the Scheme.

(iv) Statement of Compliance

The Committee confirms that the Scheme has throughout the financial year complied with all statutory and regulatory requirements and that the Scheme has been managed in accordance with the principles of good corporate governance.

(v) Internal Control and Risk Management

The Committee is responsible for reviewing the effectiveness of the Scheme's system of internal control which is designed to provide reasonable assurance regarding the safeguarding of assets against unauthorized use or disposal and for maintenance of proper accounting records and reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable assurance against material misstatement or loss.

(vi) Auditor

The Scheme is audited and reported on by a professionally qualified accountant appointed by the National Assembly in accordance with Article 226(4) of the Constitution of Kenya, 2010.

8. Management Discussions and Analysis

(i) The Scheme's operational and financial performance

The Scheme was established in 2016 with the objective of providing Mortgage financing to the OAG staff members to purchase or construct decent houses for their current or ultimate occupation upon retirement.

The Auditor-General has the overall responsibility over the Scheme and has appointed a Management Committee to oversee the implementation and administration of the Scheme in liaison with the contracted external service provider.

Since inception **117** staff have benefited from the Scheme with mortgages totalling **Kshs.780,882,010**. This has enabled them acquire decent residential houses either for their current or ultimate occupation upon retirement.

During the period under review, **35** applications were approved and issued with loans worth **Kshs.213,587,293**.

	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
No. of Applications	-	62	21	37	33	39
Approved Applications	-	14	19	26	23	35
Loans Issued	-	102,115,000	138,282,092	175,379,670	151,517,955	213,587,293
Loans Repaid	-	2,679,156	10,786,120	23,833,745	37,467,110	48,647,037
Loans Outstanding	-	99,435,844	226,931,816	378,477,741	492,528,586	657,468,842
Exchequer receipts	70,000,000	139,813,000	202,268,700	151,101,100	148,106,200	44,106,200
Interest received	-	7,892,992	12,005,940	27,710,104	25,826,735	25,209,841
Bank Balances	70,000,000	113,086,219	194,907,858	204,015,364	246,071,658	126,893,226

During the year under review, the Scheme received interest income amounting to Kshs.7,422,357 from funds in fixed term deposit account and Kshs.17,787,484 as interest from mortgage loans advanced to staff members. The Scheme also received transfers of Kshs.44,106,200 from the Exchequer through OAG. Cumulatively, transfers totalling Kshs.755,395,200 had been received by the Scheme as at 30 June, 2021.



(ii) Financial Performance for the Last Five Years

	2016/17	2017/18	2018/19	2019/20	2020/21
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenues from The National Treasury	139,813,000	202,268,700	151,101,100	148,106,200	44,106,200
Interest earned - Deposits	6,339,081	6,662,852	18,247,654	11,982,857	7,422,357
Interest earned - Loanees	1,553,911	5,343,088	9,462,450	13,843,878	17,787,484
Total	147,705,992	214,274,640	178,811,204	173,932,935	69,316,041
Transferred to Revolving Fund	139,813,000	202,268,700	151,101,100	148,106,200	44,106,200
Management expenses	1,553,911	5,343,088	9,462,450	13,843,878	17,787,484
Withholding taxes	950,862	999,428	2,737,148	1,797,429	1,113,353
Total expenses	142,317,773	208,611,216	163,300,698	163,747,506	63,007,038
Surplus for the period	5,388,219	5,663,424	15,510,506	10,185,429	6,309,003

It is expected that the Scheme will be self-sustaining in future as more and more loan repayments get ploughed back to the Revolving Fund.

(iii) Scheme's Compliance with Statutory Requirements

The Scheme has throughout the financial year complied with all statutory and regulatory requirements and that the Scheme has been managed in accordance with the principles of good corporate governance.

(iv) Material Arrears in Statutory/Financial Obligations

The Scheme does not have any known material arrears in statutory/financial obligations as at the reporting date.

(v) The Scheme's Financial Probity and Serious Governance Issues

To obtain assurance on compliance and prudence in the management of the Scheme finances, the Scheme prepares the financial statements which are subjected to both internal and external audits. The audit findings and recommendations enable the Office to strengthen the Scheme operational and financial systems. There is no case of financial impropriety and governance issues reported to any government agency during the year.

9. Environmental and Sustainability Reporting

Environmental and Sustainability Responsibility is an integral part of our culture. As a responsible organisation, we respect the interests of our stakeholders including the OAG employees and the wider community and we actively seek opportunities to improve the environment and contribute to the well-being of the communities around us.

(i) Financial Sustainability

The principal activity of the Scheme is to provide mortgage loans to the OAG staff to enable them acquire decent residential houses either for their current or ultimate occupation upon retirement. The Scheme received funding from The National Treasury through the Office of Auditor-General and from interest earned on bank deposits and from loans advanced. The Scheme is a Revolving Fund hence all interests and capital repayments are ploughed back to the Scheme for onward lending to more applicants. Eventually the Scheme should be self-sustaining and not rely on Exchequer funding.

(ii) Capacity Improvement

The Scheme has organized a training program for the Management Committee members to understand their role in the process of vetting loan applications. In conjunction with the Scheme Administrators, the Scheme has also planned for virtual and physical sensitization for OAG employees where they will be taken through the application process and the requirements that are needed for them to apply and successfully qualify for loans. This will ensure that the employees get served better while preparing them for a prosperous retirement.

(iii) Knowledge Sharing Platforms

The Scheme in conjunction with the Corporate Communication and Information Communication Technology Directorates provides information to OAG staff regarding products and services and the Scheme's milestones through emails and newsletters. The feedback reports obtained from staff help in improving the services offered by the Scheme.

During the financial year under review, the Scheme did not carry-out any Corporate Social Responsibility (CSR) activities.

10. Report of The Scheme Committee

The Office of the Auditor-General submits the report of the Scheme together with the audited financial statements for the year ended 30 June, 2021 which show the state of the Scheme's affairs.

(i) Principal Activities

The principal activity of the Scheme is to provide Mortgage financing to the OAG members of staff to purchase or construct decent houses for their current or ultimate occupation upon retirement.

(ii) Performance

The performance of the Scheme for the year ended 30 June, 2021 are set out on pages 1 to 21.

(iii) Committee

The members of the Committee are as shown on page vii.

(iv) Auditors

PKF Kenya LLP were appointed by the National Assembly to audit the financial statements for the 2020/21 financial year.

By Order of the Committee



CPA Dr. Leonard Lari
Committee Chairman

Date: 09.08.24

11. Statement of Management's Responsibilities

Section 84 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a National Public Fund established under the constitution or an act of parliament shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Auditor-General is the administrator of the Scheme Fund and is responsible for the preparation and presentation of financial statements, which give a true and fair view of the state of affairs of the Scheme for and as at the end of the financial year ended on 30 June, 2021. 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 Scheme; (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 Scheme; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

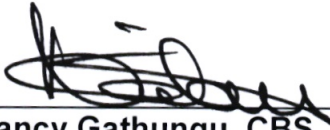
The Auditor-General accepts responsibility for the Scheme's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Auditor-General is of the opinion that the financial statements give a true and fair view of the state of Fund's transactions during the financial year ended 30 June, 2021 and of its financial position as at that date.

The Auditor-General further confirms the completeness of the accounting records maintained for the Scheme, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Auditor-General has assessed the Scheme'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 Auditor-General to indicate that the Scheme will not remain a going concern for at least for the next twelve months from the date of this statement.

Approval of the Financial Statements

The Scheme's financial statements were approved by the Committee on *09-08-2024* and signed on its behalf by:



**FCPA Nancy Gathungu, CBS
Auditor-General/Fund Administrator**

ICPAK Member No: 4893

12. Report of the Independent Auditor on the Financial Statements of the Staff Mortgage Scheme of the Office of the Auditor-General for the Year Ended 30 June 2021

Opinion

We have audited the financial statements of the Staff Mortgage Scheme of the Office of the Auditor-General (OAG), set out on pages 1 to 21, which comprise the statement of financial position as at 30 June 2021, statement of financial performance, statement of changes in net assets, statement of cash flows for the year then ended, statement of comparison of budget and actuals and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly in all material respects the Scheme's financial position as at 30 June 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Public Finance Management Act, 2012.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Scheme and Office of the Auditor-General in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have not determined any matter to be a key audit matter to be communicated in our report.

Other information

The Auditor-General is responsible for the other information. The other information comprises key Scheme information and management, the Scheme management committee, chairman's report, report of the Scheme administrator, statement of performance against predetermined objectives, corporate governance statement, management discussion and analysis, environmental and sustainability reporting, report of the Scheme committee, statement of management's responsibilities and Annex 1 and Annex 2 that comprise the annual report but does not include the financial statements and our auditor's report thereon.

Report of the Independent Auditor on the Financial Statements of the Staff Mortgage Scheme of the Office of the Auditor-General for the Year Ended 30 June 2021 (continued)

Other information (continued)

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Auditor-General and those charged with governance for the financial statements

Auditor-General and those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Standards Board (accrual basis), and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Auditor-General and those charged with governance are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Auditor-General either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Scheme's financial reporting process.

Auditor's Responsibilities for the Audit of the Staff Mortgage Scheme of the Office of the Auditor-General Financial Statements

Our objectives are to obtain reasonable assurance about whether the Scheme 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement 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 the Scheme's financial statements.

As part of an audit in accordance with International standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

Report of the Independent Auditor on the Financial Statements of the Staff Mortgage Scheme of the Office of the Auditor-General for the Year Ended 30 June 2021 (continued)

Auditor's Responsibilities for the Audit of the Staff Mortgage Scheme of the Office of the Auditor-General Financial Statements (continued)

- 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 our 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme.
- Conclude on the appropriateness of the Scheme'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 its ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- 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.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide those charged with governance with a statement that we 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 our independence, and where applicable, related safeguards.



Report of the Independent Auditor on the Financial Statements of the Staff Mortgage Scheme of the Office of the Auditor-General for the Year Ended 30 June 2021 (continued)

Auditor's Responsibilities for the Audit of the Staff Mortgage Scheme of the Office of the Auditor-General Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

As required by the Public Audit Act, 2015 we report to you that:

- a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- b. In our opinion proper books have been kept by the Scheme, so far as it appears from our examination of those books;
- c. The Scheme's financial statements are in agreement with the accounting records.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Mohamed Asif Chaudhry, Practising Certificate No. 2059.

Chaudhry
.....

**For and on behalf of PKF Kenya LLP
Certified Public Accountants
Nairobi, Kenya**

12-08-
.....2024

1074/24

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13. Statement of Financial Performance for The Year Ended 30 June 2021

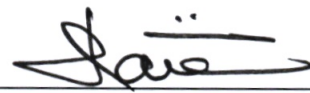
		2020/2021	2019/2020
	Notes	Kshs	Kshs
Revenue from Non-Exchange Transactions			
Transfers from OAG	5	44,106,200	148,106,200
		44,106,200	148,106,200
Revenue from Exchange Transactions			
Interest Income from Deposits	6	7,422,357	11,982,857
Interest income from Loans	6	17,787,484	13,843,878
		25,209,841	25,826,735
Total Revenue		69,316,041	173,932,935
Expenses			
Management costs	7	(17,787,484)	(13,843,878)
Transfer to Revolving Fund	9	(44,106,200)	(148,106,200)
Total Expenses		(61,893,684)	(161,950,078)
Surplus before Tax		7,422,357	11,982,857
Taxation	8	(1,113,353)	(1,797,429)
Surplus after Tax		6,309,003	10,185,429

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on ...09-08-2021.. and signed by:



FCPA Nancy Gathungu, CBS
 Auditor-General

ICPAK No: 4893



CPA Isaac Ng'ang'a
 Deputy Auditor General -
 Corporate Services

ICPAK No: 8292

14. Statement of Financial Position as at 30 June 2021

		2020/2021	2019/2020
	Notes	Kshs	Kshs
ASSETS			
Current Assets			
Cash and cash equivalents	10	126,893,226	246,071,658
Loans receivable	11	657,468,842	492,528,586
Due from Scheme banker	12	14,089,712	9,436,334
Total Current Assets		798,451,781	748,036,578
Total Assets		798,451,781	748,036,578
LIABILITIES			
Non-Current Liabilities		-	-
Current Liabilities		-	-
Total Liabilities		-	-
NET ASSETS		798,451,781	748,036,578
Revolving Fund	13	755,395,200	711,289,000
Accumulated Surplus	14	43,056,581	36,747,578
TOTAL EQUITY		798,451,781	748,036,578

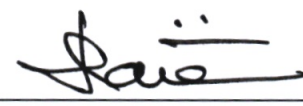
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 09-08-2021 and signed by:



 FCPA Nancy Gathungu, CBS

Auditor-General

ICPAK No: 4893



 CPA Isaac Ng'ang'a
 Deputy Auditor General -
 Corporate Services

ICPAK No: 8292

15. Statement of Changes in Net Assets for the Year Ended 30 June 2021

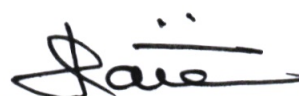
	Revolving Fund	Accumulated surplus	Total
	Kshs	Kshs	Kshs
Balance as at 1 July 2019	563,182,800	26,562,149	589,744,949
Surplus for the period	-	10,185,429	10,185,429
Funds received during the year	148,106,200	-	148,106,200
Balance as at 30 June 2020	711,289,000	36,747,578	748,036,578
Balance as at 1 July 2020	711,289,000	36,747,578	748,036,578
Surplus for the period	-	6,309,003	6,309,003
Funds received during the year	44,106,200	-	44,106,200
Balance as at 30 June 2021	755,395,200	43,056,581	798,451,781

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 09-08-2024 and signed by:



FCPA Nancy Gathungu, CBS
 Auditor-General

ICPAK No: 4893



CPA Isaac Ng'ang'a
 Deputy Auditor General -
 Corporate Services

ICPAK No: 8292

16. Statement of Cash Flows for The Year Ended 30 June 2021

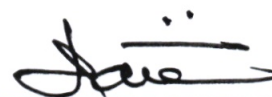
		2020/2021	2019/2020
	Notes	Kshs	Kshs
Cash flows from Operating Activities			
Receipts			
Transfers from OAG	5	44,106,200	148,106,200
Interest received from deposits	6	7,422,357	11,982,857
Total Receipts		51,528,557	160,089,057
Payments			
Tax paid	8	(1,113,353)	(1,797,429)
Total Payments		(1,113,353)	(1,797,429)
Net Cash flow from Operating Activities		50,415,203	158,291,629
Cash flows from Investing Activities			
Proceeds from loan principal repayments	10	43,993,658	35,282,620
Loan disbursements paid out	10	(213,587,293)	(151,517,955)
Net cash flows (used in) investing activities		(169,593,635)	(116,235,335)
Cash flows from financing activities			
Proceeds from Revolving Fund receipts		-	-
Additional borrowings		-	-
Repayment of borrowings		-	-
Net cash flows used in financing activities		-	-
Net (decrease)/increase in cash and cash equivalents		(119,178,432)	42,056,294
Cash and cash equivalents at 1st July	10	246,071,658	204,015,364
Cash and cash equivalents at 30th June	10	126,893,226	246,071,658

The notes set out on page 6 to 21 form an integral part of these Financial Statements



FCPA Nancy Gathungu, CBS
 Auditor-General

ICPAK No: 4893




CPA Isaac Ng'ang'a
 Deputy Auditor General -
 Corporate Services

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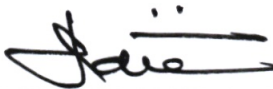
17. Statement of Comparison of Budget and Actuals for Year Ended 30 June 2021

	Original budget	Change	Final budget	Actual on comparable basis	Performance difference	% utilization
	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Transfers from OAG.	44,106,200	-	44,106,200	44,106,200	-	100%
Interest from Deposits	-	-	-	7,422,357	(7,422,357)	
Interest from Loanees	-	-	-	17,787,484	(17,787,484)	
Total income	44,106,200	-	44,106,200	69,316,041	(25,209,841)	157%
Expenses						
Management costs	-	-	-	17,787,484	(17,787,484)	
Transfer to Revolving Fund	44,106,200	-	44,106,200	44,106,200	-	100%
Total expenditure	44,106,200	-	44,106,200	61,893,684	(17,787,484)	140%
Tax paid	-	-	-	1,113,353	(1,113,353)	
Surplus for the period	-	-	-	6,309,003		

- a) Interest income from deposits was earned during the year on the available funds in the fixed deposit account held at the Housing Finance Company Ltd while interest from Loans was earned from the monthly payroll deductions.
- b) Management cost is the interest recovered from Loanees at 3% and paid to Housing Finance Company Ltd as management expenses. This is done as per contract agreement.
- c) Tax paid expense relate to the 15% withholding taxes being final tax that were charged on the interest earned from the fixed deposit account.


 FCPA Nancy Gathungu, CBS
 Auditor-General

ICPAK No: 4893


 CPA Isaac Ng'ang'a
 Deputy Auditor General -
 Corporate Services

ICPAK No: 8292

18. Notes to Financial Statements

1. General Information

The Staff Mortgage Scheme is established and administered as provided under Section 24 (4)(5)(6)(7) of the PFM Act, 2012 and Section 127 (1) (2) of the PFM (National Government) Regulations, 2015. Further, the Scheme was established pursuant to SRC Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) dated 17 December, 2014. The Scheme is wholly owned by the Office of the Auditor-General and is domiciled in Kenya. The principal activity of the Scheme is to provide loans to the staff of the Office of the Auditor-General to purchase new or second-hand motor vehicles for enhanced mobility to and from work.

2. Statement of Compliance and Basis of Preparation

The Scheme's financial statements have been prepared in accordance with and comply with the PFM Act, 2012 and International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Scheme. 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 statement of cash flows is prepared using the direct method. The financial statements are prepared on accrual basis.

3. Adoption of New and Revised Standards

- i. **New and amended standards and interpretations in issue effective in the year ended 30 June, 2021.**

There were no new and amended standards in issue and effective in the year.

- ii. **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June, 2021.**

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	Applicable: 1st January, 2023: 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

Standard	Effective date and impact:
	<p>assessment of the amounts, timing and uncertainty of an Entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p>The Management is currently assessing the impact of the standard.</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> <ol 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 is not expected to have a material impact on the Scheme's financial statements.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January, 2023:</p> <ol 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.

Standard	Effective date and impact:
	<p>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>
<p>Other improvements to IPSAS</p>	<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>IPSAS 43: Leases</p>	<p>Applicable 1st January, 2025</p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> <p>The standard is not expected to have a material impact on the Scheme's financial statements.</p>
<p>IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations</p>	<p>Applicable 1st January, 2025</p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> <p>The standard is not expected to have a material impact on the Scheme's financial statements.</p>

Standard	Effective date and impact:
<p>IPSAS 45: Property Plant and Equipment</p>	<p>Applicable 1st January, 2025 The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g. valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets. The standard is not expected to have a material impact on the Scheme's financial statements.</p>
<p>IPSAS 46: Measurement</p>	<p>Applicable 1st January, 2025 The objective of this standard was to improve measurement guidance across IPSAS by:</p> <ul style="list-style-type: none"> i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used. ii. Clarifying transaction costs guidance to enhance consistency across IPSAS. iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures. <p>The standard also introduces a public sector specific measurement bases called the current operational value. The standard is not expected to have a material impact on the Scheme's financial statements.</p>
<p>IPSAS 47: Revenue</p>	<p>Applicable 1st January, 2026 This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.</p>

Standard	Effective date and impact:
	The standard is not expected to have a material impact on the Scheme's financial statements.
IPSAS 48: Transfer Expenses	Applicable 1st January, 2026 The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers. The standard is not expected to have a material impact on the Scheme's financial statements.
IPSAS 49: Retirement Benefit Plans	Applicable 1st January, 2026 The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan. The standard is not expected to have a material impact on the Scheme's financial statements.

iii. Early Adoption of Standards

The Scheme did not early – adopt any new or amended standards in the financial year.

4. Significant Accounting Policies

Revenue recognition

a) Revenue from Non-Exchange Transactions

Transfers from Office of the Auditor-General

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 Scheme and can be measured reliably.

b) 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.

Budget Information

The original budget for FY 2020/2021 was approved by the National Assembly and subsequent revisions were made to the approved budget in accordance with approvals from the Parliament.

The Scheme'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. A comparison of budget and actual amounts is then presented in the statement of comparison of budget and actual amounts.

Financial Instruments

a) 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 Scheme 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.

Impairment of Financial Assets

The Scheme assesses at each reporting date whether there is objective evidence that a financial asset or a Fund of financial assets is impaired. Management then follows the procedure required by Section 145 of the PFM (National Government) Regulations, 2015. A financial asset of the Scheme 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 Scheme that can be reliably estimated. Evidence of impairment may include the following indicators:

- The loans receivable of the Scheme are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that loans receivable will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows

Changes in Accounting Policies and Estimates

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

Related Parties

The Scheme 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 Scheme, or vice-versa. Key management members are regarded as related parties and comprise of the Scheme Committee.

Cash and Cash Equivalents

Cash and cash equivalents comprise 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 Housing Finance Company Limited at the end of the financial year.

Comparative Figures

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

Events after the Reporting Period

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

Ultimate and Holding Entity

The Scheme is established by Section 84 of the Public Finance Management (PFM) Act 2012. Its ultimate parent is the Office of the Auditor-General.

Currency

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

Notes to Financial Statements (continued)

5. Transfers from the Office of the Auditor-General

Description	2020/2021	2019/2020
	Kshs	Kshs
Transfers from the Office of the Auditor-General	44,106,200	148,106,200
Total	44,106,200	148,106,200

During the year under review, transfers from the Office of the Auditor-General amount of Kshs.44,106,200 was received as follows:

Date of payments	2020/2021
	Kshs
12 Nov 2020	12,526,550
28 Aug 2020	12,526,550
26 Jan 2021	9,526,550
13 May 2021	9,526,550
Total	44,106,200

6. Interest Income

Description	2020/2021	2019/2020
	Kshs	Kshs
Interest income earned on deposits	7,422,357	11,982,857
Interest income from Loans	17,787,484	13,843,878
Total interest income	25,209,841	25,826,735

The Interest Income of Kshs.7,422,357 relates to the total interest earned on the capital sum deposited in the Scheme account at the Housing Finance Company Limited while the Kshs.17,787,484 was recovered from staff through payroll deductions at 3% interest rate.

7. Management Costs

Description	2020/2021	2019/2020
	Kshs	Kshs
Management expenses	17,787,484	13,843,878
Total	17,787,484	13,843,878

All the interest earned from the Loans that is charged @ 3% per annum is used to pay the Management expenses. During the year Management costs amounted to Kshs.17,787,484.

Notes to Financial Statements (continued)

8. Tax Expenses

Description	2020/2021	2019/2020
	Kshs	Kshs
Withholding Tax on interest income @15%	1,113,353	1,797,429
Total	1,113,353	1,797,429

Tax expenses of Kshs.1,113,353 relates to the withholding tax on interest income charged at 15% of the gross interest earned.

9. Transfers to Revolving Fund

Description	2020/2021	2019/2020
	Kshs	Kshs
Amount transferred to Revolving Fund	44,106,200	148,106,200
Total	44,106,200	148,106,200

This represents amount recognized as receipts from OAG which was transferred to the Revolving Fund.

10. Cash and Cash Equivalents

Description	2020/2021	2019/2020
	Kshs	Kshs
Opening cash and cash equivalent	246,071,658	204,015,364
Cash transferred from OAG	44,106,200	148,106,200
Loans Issued	(213,587,293)	(151,517,955)
Principal Loan Repaid	43,993,658	35,282,620
Surplus ploughed back	6,309,003	10,185,429
Total Cash and Cash Equivalents	126,893,226	246,071,658

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

Financial institution	Account number	2020/2021	2019/2020
		Kshs	Kshs
Fixed deposits account			
Housing Finance Co. Ltd	2054703401	126,893,226	246,071,658
Total		126,893,226	246,071,658

Notes to Financial Statements (continued)

11. Loan Receivables

Description	2020/2021	2019/2020
	Kshs	Kshs
Opening balance	492,528,586	378,477,741
Loans Issued	213,587,293	151,517,955
Less Capital Loans Repaid	(48,647,037)	(37,467,110)
Closing balance	657,468,842	492,528,586

The loan receivables represent the mortgage capital balances for all the Loanees as at the end of the period under review.

12. Due from Scheme Banker

Description	2020/2021	2019/2020
	Kshs.	Kshs
Opening balance	9,436,334	7,251,844
(Decrease)/increase for the year	4,653,379	2,184,490
Closing balance	14,089,712	9,436,334

These amounts represent the capital balances recovered but had not been ploughed back to the Scheme as at the end of the period under review.

Movement in the Loans Issued

Description	2020/2021	2019/2020
	Number	Number
At start of year	81	59
Loans issued	35	23
Less loans repaid	(1)	(1)
At end of year	115	81

13. Revolving Fund

Description	2020/2021	2019/2020
	Kshs	Kshs
Opening balance	711,289,000	563,182,000
Transfers from OAG during the year	44,106,200	148,106,200
Closing balance	755,395,200	711,289,000

This relates to the amounts that were received from The National Treasury and then transferred from the Office of the Auditor-General to the Scheme over the years to be issued to the Staff whose applications have been approved.

Notes to Financial Statements (continued)

14. Accumulated Surplus

Description	2020/2021	2019/2020
	Kshs	Kshs
Opening balance	36,747,578	26,562,149
Surplus for the year	6,309,003	10,185,429
Closing balance	43,056,581	36,747,578

This relates to the surplus amounts for the years since the Scheme's inception in 2016. The surplus is arrived at from the interest earned from the free funds deposit account and interest from Loanees less the management costs and 15% withholding taxes.

Other Disclosures

15. Related Party Balances

a) Nature of Related Party Relationships

Entities and other parties related to the Scheme 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 Scheme is related to the following entities:

- a) Office of the Auditor-General.
- b) Scheme Committee.

b) Related Party Transactions

	2020/2021	2019/2020
	Kshs	Kshs
Transfers from OAG	44,106,200	148,106,200
Interest from Scheme Committee members	822,721	929,248
Total	44,928,921	149,035,448

	2020/2021	2019/2020
Related Party Balances	Kshs	Kshs
Due from Scheme Committee members	25,419,056	29,124,790
Total	25,419,056	29,124,790

16. Financial Risk Management

The Scheme's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Scheme'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.

Other Disclosures (continued)

The Scheme does not hedge any risks and has in place policies to ensure that credit is only extended to OAG staff members as per the established Scheme's guidelines. The Scheme's financial risk management objectives and policies are detailed below:

a) Credit Risk

The Scheme 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, loans receivable as well as other receivables.

The Management Committee assesses the credit quality of each staff, taking into account its financial position, past experience and other factors. Individual risk limits are based on internal and external assessment in accordance with the limits set by the Salaries and Remuneration Commission. The carrying amounts of financial assets recorded in the financial statements representing the Scheme's maximum exposure to credit risk without taking into account of the value of any collateral obtained is made up as follows:

Description	Total Amount (Kshs)	Fully performing (Kshs)	Past Due (Kshs)	Impaired (Kshs)
At 30 June 2021				
Loan receivables	657,468,842	657,468,842	-	-
Due from Scheme banker	14,089,712	14,089,712		
Bank balances	126,893,226	126,893,226	-	-
Total	798,451,781	798,451,781	-	-
At 30 June 2020				
Loan Receivables	492,528,586	492,528,586	-	-
Due from Scheme banker	9,436,334	9,436,334		
Bank Balances	246,071,658	246,071,658	-	-
Total	748,036,578	748,036,578	-	-

The Loanees under fully performing category are paying their debts. The credit risk associated with these receivables is minimal and the risk has been transferred to Housing Finance Company hence no impairment done.

Other Disclosures (continued)

b) Market Risk

The Office has put in place an internal audit function to assist it in assessing the risk faced by the Scheme 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 Scheme'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 which reviews and approves the detailed risk management policies. There has been no change to the Scheme's exposure to market risks or the manner in which it manages and measures the risk. Aside from interest rate covered below, the Scheme does not have material exposures to other market risks.

c) Capital Risk Management

The objective of the Scheme's capital risk management is to safeguard the Scheme's ability to continue as a going concern. Currently the Scheme has no borrowings. The Scheme capital structure comprises of the following:

Description	2020/2021	2019/2020
	Kshs.	Kshs.
Revolving Fund	755,395,200	711,289,000
Accumulated Surplus	43,056,581	36,747,578
Total funds	798,451,781	748,036,578

d) Interest Rate Risk

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

Other Disclosures (continued)

e) Sensitivity Analysis

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

Using the end of the year figures of interest from deposits of Kshs.7,422,356.5 one percentage point increase/decrease from the floating interest rates used would result to a decrease/increase of Kshs.1,214,550(2020:Kshs.2,040,938). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs.6,072,749 (2020:Kshs.10,204,690).

17. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Scheme'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. Management has not made any significant judgements or estimates.

19. Annexes

Annex I: Progress on Follow Up of Prior Year Auditor’s Recommendations

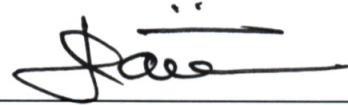
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
N/A					

The Scheme was established and became operational in the year 2015/16. The Scheme received an Unmodified Opinion for year 2016/17. Audit of the financial statements from year 2017/18 to year 2020/ has been conducted concurrently.



FCPA Nancy Gathungu, CBS
 Auditor-General

ICPAK No: 4893



CPA Isaac Ng'ang'a
 Deputy Auditor General -
 Corporate Services

ICPAK No: 8292

Annex II: Reporting of Climate Relevant Expenditures

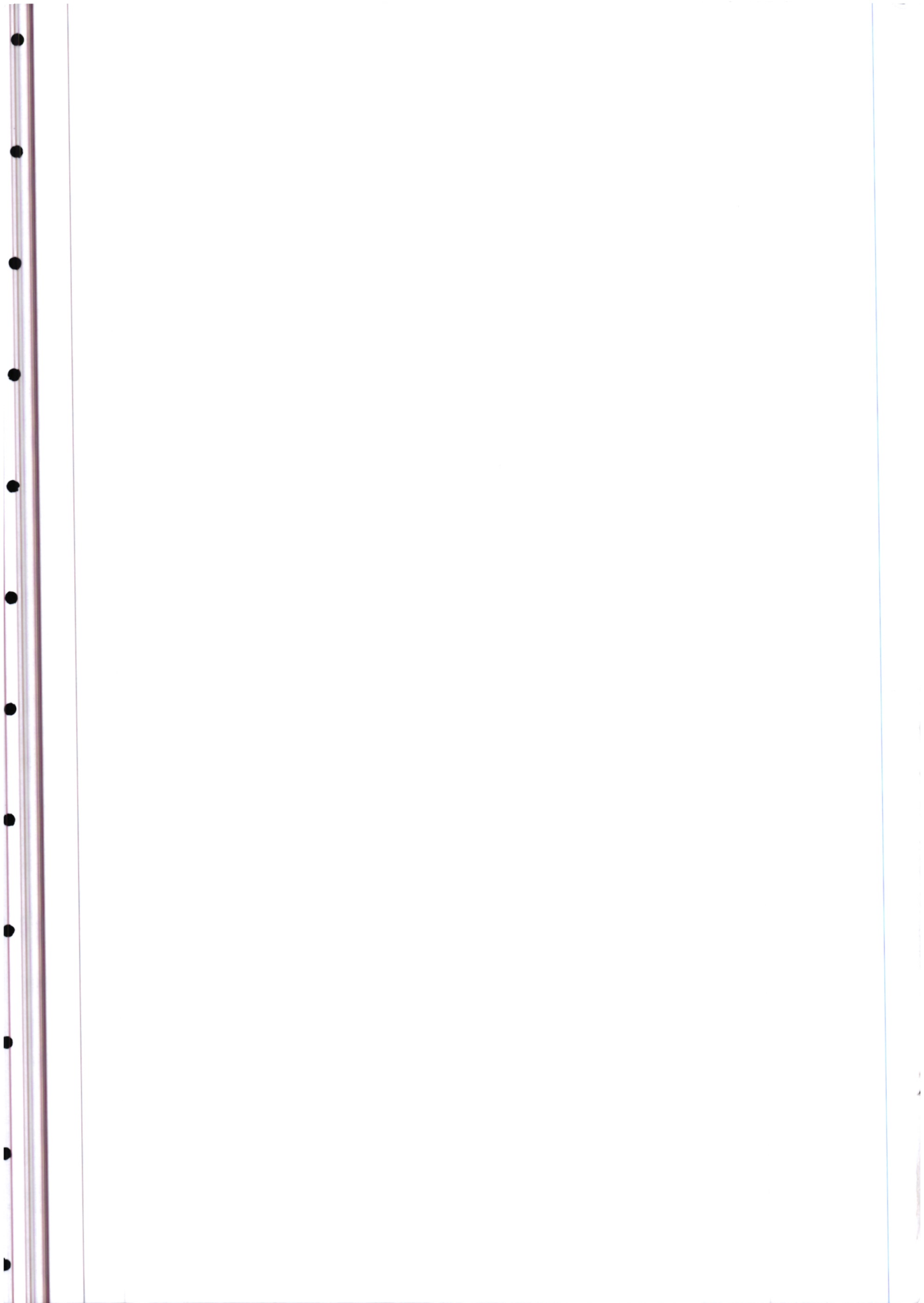
Project Name	Project Description	Project Objectives	Project Activities					Source of Funds	Implementing Partners
				Q 1	Q 2	Q 3	Q 4		
N/A									

The Scheme did not incur any climate related expenditure during the year under review.

Annex III: Disaster Expenditure Reporting Template

Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Ks hs.)	Comments
N/A						

The Scheme did not incur any disaster related expenditure during the year under review.



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