REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

COUNTY ASSEMBLY OF NAKURU CAR LOAN AND MORTGAGE FUND

FOR THE YEAR ENDED 30 JUNE, 2019

COUNTY ASSEMBLY OF NAKURU
CAR LOAN & MORTGAGE FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2019

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

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1. KEY NAKURU COUNTY ASSEMBLY CAR LOAN AND MORTGAGE SCHEME FUND INFORMATION AND MANAGEMENT

a) Background information

The Nakuru County Assembly Car Loan and Mortgage Fund was established under County Government of Nakuru Car Loan and Mortgage Scheme Fund Regulations of 2016. The regulations were amended on 15th January, 2018. The Fund is wholly owned by the County Assembly of Nakuru and is domiciled in Kenya.

The principal purpose and object of the Act is to establish a loan scheme to provide loans to Members of the Scheme to purchase motor vehicles or residential houses in addition to develop, renovate or repair their residential property.

The Fund's principal activity is advancing Car Loans and Mortgage to members of County Assembly and staffs.

b) Principal Activities

The principal mandate of the Fund is to provide affordable Car and Mortgage loans to Members and Staff of the Assembly.

c) Key Management

Ref	Name	Position
1	Joseph M. Malinda	County Assembly Clerk
2	Stephen M. Gatimu	Deputy County Assembly Clerk
3	Jane N. Waweru	Director Finance, Budget and Procurement
4	Jane W. Karanja	Director Human Resource and Development
5	Joseph K. Chege	Director Hansard and ICT

d) Registered Offices

P.O. Box 907
County Assembly Building
George Morara Road
Nakuru, KENYA

e) Fund Contacts

Telephone :(254)051-2216472
E-mail: clerkassembly@nakurucounty.go.ke
Website: www.nakurucounty.org.ke

f) Fund Bankers

1. Family Bank Ltd
   Family Bank Towers,
   Muindi Mbingu Street
   P.O. Box 7414-00200
   City Square
   Nairobi, Kenya
   Nakuru Finance
   Account No. 018000055807
   Account No. 018000067410
   Account No. 018000073215
   Account No. 018000073217

g) Independent Auditors

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

h) Principal Legal Adviser

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

2. MANAGEMENT TEAM

	Name	Details of qualifications and experience
1	 Joseph M. Malinda	Masters of Business Administration (MBA), Bachelor of Laws (LLB). 26 years' Experience. Clerk to the County Assembly.
2	 Stephen M. Gatimu	MPA, Bachelor of Arts (BA). 13 years' Experience. Deputy Clerk
3	 Jane N. Waweru	Bachelor of Commerce / CPA (K). 24 years' experience. Director-Finance, Budget and Procurement
4	 Jane W. Karanja	Bachelor of Business Administration (BBM), Diploma in Business Management. 21 years' experience. Director Human Resource and Development.
5	 Joseph K. Chege	Bachelor of Arts (BA), Diploma in Mass Communication, 26 years' Experience

3. STATEMENT OF PERFORMANCE AGAINST NAKURU COUNTY ASSEMBLY'S OBJECTIVES

The Nakuru County Assembly Car Loan and Mortgage Scheme Fund has in a large extent achieved its intended purpose and objectives. To this extend all the Members of County Assembly have accessed the facility on priority basis since their period in the Assembly is limited to the term they are in Office.

The Fund has also covered a bigger percentage of Members of Staff with preference to those with few years remaining in service. The Fund is yet to cover all the Staff Members and Management is endeavouring to allocate additional seed capital to the Fund so as to cover all the Members of Staff in future.

4. REPORT OF THE FUND ADMINISTRATOR

The Financial Statements for County Assembly Car and Mortgage Scheme Fund for the financial year 2018-2019 were prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board of Kenya.

The County Assembly Service Board entered into an agreement with Family Bank Limited to run the day-to-day administration of the Fund on behalf of the Board. The Board keeps a closer supervision of the Bank and has to approve any amount being disbursed for adequate checks. All the loans being disbursed are secured and an insurance cover is there to cushion the Assembly just in-case of any eventuality. To further safeguard the funds, the properties are always charged and jointly registered between the Board and the beneficiary.

The total loan disbursement for the FY 2018-2019 amounted to kes 134,575,000. The Assembly had budgeted for kes 30 million to boost the fund in order to enable the Assembly meet the increasing demand of the facilities. The efforts to have the budget honored by the National Treasury were futile since the Assembly never received a single penny from the exchequer.

The County Assembly Service Board is proud for facilitating the high need of the car loan and mortgage facilities from the current members of the County Assembly. Over 90% of the current members and staffs are now servicing their loans which have adversely changed their lives positively. However, the Assembly in every financial year endeavors to appropriate additional funding to the fund in order to benefit the remaining Members of Staff.

Signed: ____________________ Date 17/02/2021

Joseph M. Malinda

Clerk to the County Assembly.

5. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a County Public Fund established by County Assembly of Nakuru Car Loan and Mortgage Scheme Fund Regulations, 2016 shall prepare financial statements for the of Nakuru County Assembly Car Loan and Mortgage Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Administrator of the County Assembly of Nakuru Car Loan and Mortgage Scheme Fund is responsible for the preparation and presentation of the of Nakuru County Assembly Car Loan and Mortgage Fund financial statements, which give a true and fair view of the state of affairs of the of Nakuru County Assembly Car Loan and Mortgage Fund for and as at the end of the financial year 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 account ting records, which disclose with reasonable accuracy at any time the financial position of the of Nakuru County Assembly Car Loan and Mortgage 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 of Nakuru County Assembly Car Loan and Mortgage Fund;
(v) Selecting and applying appropriate accounting policies; and
(vi) Making accounting estimates that are reasonable in the circumstances.

The Administrator of the County Assembly of Nakuru Car Loan and Mortgage scheme Fund accepts responsibility for the of Nakuru Car Loan and Mortgage Fund 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 County Assembly of Nakuru Car Loan and Mortgage Scheme Fund Regulations, 2016. The Fund Administrator is of the opinion that the of Nakuru County Assembly Car Loan and Mortgage Fund financial statements give a true and fair view of the state of Fund's transactions during the financial year 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 of Nakuru County Assembly Car Loan and Mortgage Fund financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Administrator of the County Assembly of Nakuru Car Loan and Mortgage Scheme Fund has assessed the of Nakuru County Assembly Car Loan and Mortgage 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 County Assembly of Nakuru Car Loan and Mortgage Scheme Fund's financial statements were approved by the Clerk of the County Assembly on 12/02 2021 and signed on its behalf by:

Clerk of the County Assembly

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF NAKURU CAR LOAN AND MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of County Assembly of Nakuru Car Loan and Mortgage Fund set out on pages 1 to 25 which comprise the statement of financial position as at 30 June, 2019, and the statement of 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1.0 Irregular Merging of Funds

The financial statements provided for audit is a consolidation of two (2) Funds without approval of the County Assembly. The County Assembly passed two separate Regulations, thereby creating Car Loan Fund and a Mortgage Fund. However, Management prepared one financial statement combining the two funds without approval from the County Assembly. This fails to enhance completeness and disclosure as per the requirement of International Public Sector Accounting Standards No.1 on presentation of the financial statements.

As such, the financial statements do not comply with the requirements of International Public Sector Accounting Standards No.1 on presentation and its accuracy and completeness could not be confirmed.

2.0 Errors in the Annual Reports and Financial Statements

The annual reports and the financial statements prepared and presented for audit had the following anomalies contrary to the format prescribed by the Public Sector Accounting Standard Board (PSASB):

2.1 The annual report and financial statements have not incorporated the board of trustees, board/fund chairperson's report, corporate governance statement, management discussion and analysis, corporate social responsibility statement/sustainability reporting and report of the trustees as required by reporting template;

2.2 The statements of managements responsibilities on page vii refers to County Assembly of Nakuru Car Loan and Mortgage Scheme Fund Regulation, 2016 instead of the Public Finance County Assembly of Nakuru Car Loan (Members) Scheme Fund Regulations, 2018 and the Public Finance County Assembly of Nakuru Mortgage (Members) Scheme Fund Regulations, 2018;

2.3 The statement of cash flows has not indicated notes for proceeds from loan principal repayments and loan disbursements paid out;

Consequently, the financial statements as presented do not comply with International Public Sector Accounting Standard No.1 on presentation of financial statements and the guidelines and format prescribed by the PSASB.

3.0 Inaccuracy of Comparative Figures

The comparative figures in the financial statements differed from the last year audited figures as detailed below;

3.1 The statement of financial position reflects comparative current portion of long-term receivables from exchange transactions of Kshs.109,340,256 while the 2017/2018 financial statement reflect Kshs.109,087,309 resulting to an unreconciled nor explained variance of kshs.252,947;

3.2 The statement of financial position reflects comparative long-term receivables from exchange transactions of Kshs.316,040,316 while the 2017/2018 financial statement reflect Kshs.316,293,263 resulting to an unreconciled nor explained variance of Kshs.252,947.

Consequently, the accuracy and completeness of the stated comparative figures included in the financial statements for the year ended 30 June, 2019 could not be confirmed.

4.0 Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular reference No PSASB/1/12/(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion and Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

Non-Remittance of Fringe Benefit Tax

The statement of financial positions reflects current portion of long-term receivables from exchange transactions of Kshs.109,952,380 and long-term receivables from exchange transactions of Kshs.355,588,202 as disclosed under Note 6 to the financial statements. The balances relate to low interest loans granted to employees and County Assembly members at the rate of 3%. However, during the year under review, there was no evidence that the management had deducted and remitted fringe benefit tax to Kenya Revenue Authority contrary to the provisions of Section 12B of the Income Tax Act.

To this extent, the Fund is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and overall governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion and Conclusion of Internal Controls, Risk Management and Governance sections of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

Lack of Fire and Risk Management Policy

During the audit, it was noted that the Fund does not have a fire and risk management strategy contrary to Section 158 (1)(a) and (b) of the Public Finance Management (County Government) Regulations, 2015 which requires the accounting officer to develop risk management strategies, which include fraud prevention mechanism and internal controls that builds robust business operations.

Under the circumstances, the Fund's risk management strategies for the year under review could not be ascertained.

Responsibilities of Management and those Charged with Governance

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

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

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

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the Fund 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

My responsibility is to conduct an audit of the Fund's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of the Fund 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.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

06 December, 2021

7. FINANCIAL STATEMENTS

7.1. STATEMENT OF FINANCIAL PERFORMANCEFOR THE YEAR ENDED 30TH JUNE 2019

	Note	FY 2018-2019	FY 2017-2018
		KES	KES
Revenue from non-exchange transactions			
		-	-
Transfers from the County Government		-	-
Revenue from exchange transactions			
Interest income	2	13,606,203	9,358,078
Total revenue		**13,606,203**	**9,358,078**
Expenses			
Fund administration expenses	3	4,535,401	2,815,766
General expenses	4	439,863	13,200
Finance costs			
Total expenses		**4,975,264**	**2,828,966**
Other gains/losses			
Gain/loss on disposal of assets			
Surplus/(deficit) for the period		**8,630,939**	**6,529,112**

7.2. STATEMENT OF FINANCIAL POSITIONAS AT 30TH JUNE 2019

	Note	FY 2018-2019 KES	FY 2017-2018 KES
Assets			
Current assets			
Cash and cash equivalents	5	16,274,069	47,803,140
Current portion of long-term receivables from exchange transactions	6	109,952,380	109,340,256
Prepayments			-
Non-Current Assets			-
Property Plant and Equipment			
Intangible Assets			
Portion of Long-term receivables from exchange transactions	6	355,588,202	316,040,316
Total Assets		**481,814,651**	**473,183,712**
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions			
Provisions		-	-
Current portion of borrowings		-	-
Employee benefit obligations		-	-
Non-Current Liabilities		-	-
Non-current employee benefit obligation			
Long term portion of borrowings		-	-
Total Liabilities		-	-
Net Assets			
Revolving Fund		457,153,529	457,153,529
Reserves			
Accumulated surplus		24,661,122	16,030,183
Total net assets and liabilities		**481,814,651**	**473,183,712**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Nakuru County Assembly Car Loan and Mortgage Scheme Fund financial statements were approved on 12/02 2021 and signed by:

Fund Administrator	**Director of Finance**
Joseph M. Malinda.	**Jane N. Waweru**
	ICPAK Member No: 7941

7.3. STATEMENT OF CHANGES IN NET ASSETSAS AT 30TH JUNE 2019

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KES	KES	KES
Balance as at 1 July 2017	**323,285,516**	-	9,501,071	**332,786,587**
Surplus/(deficit) for the period			6,529,112	**6,529,112**
Funds received during the year	133,868,013	-	-	**133,868,013**
Revaluation gain	-	-	-	-
Balance as at 30 June 2018	**457,153,529**	-	**16,030,183**	**473,183,712**
Balance as at 1 July 2018	**457,153,529**	-	**16,030,183**	**473,183,712**
Surplus/(deficit) for the period	-	-	8,630,939	**8,630,939**
Funds received during the year	-	-	-	-
Revaluation gain	-	-	-	-
Balance as at 30 June 2019	**457,153,529**	-	**24,661,122**	**481,814,651**

7.4. STATEMENT OF CASHFLOWSFOR THE YEAR ENDED 30TH JUNE 2019

	Note	FY 2018-2019 KES	FY 2017-2018 KES
Cash flows from operating activities			
Receipts			
Public contributions and donations		-	-
Transfers from the County Government	1	-	133,868,013
Interest received	2	9,137,113	7,596,098
Receipts from other operating activities			
Total Receipts		**9,137,113**	**141,464,111**
Payments			
Fund administration expenses	3		
General expenses	4	(439,863)	(13,200.00)
Total Payments		**(439,863)**	**(13,200.00)**
Adjusted For:			
Decrease/(Increase) in accounts receivable: (Outstanding Imprest)	8		
Increase/(Decrease) in Accounts Payable: (deposits and retention)			
Total		**8,697,249**	**141,450,911**
Net cash flows from operating activities			
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		-	-
Proceeds from sale of property, plant and equipment		-	-
Proceeds from loan principal repayments		94,348,680	46,981,200
Loan disbursements paid out		(134,575,000)	(389,656,870)
Net cash flows used in investing activities		**(40,226,320)**	**(342,675,670)**
Cash flows from financing activities			
Proceeds from revolving fund receipts			
Additional borrowings			
Repayment of borrowings			
Net cash flows used in financing activities			
Net increase/(decrease) in cash and cash equivalents		**(31,529,071)**	**(201,224,759)**
Cash and cash equivalents at 1st July,2018	5	47,803,140	249,027,899
Cash and cash equivalents at 30 JUNE		**16,274,069**	**47,803,140**

7.5. 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	% utilization
	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19
Revenue	**KES**	**KES**	**KES**	**KES**	**KES**	
Public contributions and donations				-	-	
Transfers from County Govt.	30,000,000	-	30,000,000	-	30,000,000	
Interest income				13,606,203	(13,606,203)	
Other income				-	-	
Total Income	30,000,000	-	30,000,000	**13,606,203**	**16,393,797**	45%
Expenses						
Fund administration expenses				4,535,401	(4,535,401)	
General expenses				439,863	(439,863)	
Finance cost					-	
Total expenditure	-		-	**4,975,264**	**- 4,975,264**	
Surplus for the period	**30,000,000**		**30,000,000**	**8,630,939**	**21,369,061**	29%

7.6. 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	Effective date and impact:
IPSAS 39: Employee Benefits	**Applicable: 1st January 2019** The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

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 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 which are covered purely under Public Sector combinations as amalgamations.

c) Early adoption of standards

The Nakuru County Assembly Car Loan and Mortgage Scheme Fund 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 Nakuru County Assembly Car Loan and Mortgage Scheme Fund and can be measured reliably.

ii) Revenue from exchange transactions

Interest income

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

4. Budget information

The original budget for FY 2018/2019 was approved by the County Assembly on June, 2019. 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 Nakuru County Assembly Car Loan and Mortgage Scheme Fund upon receiving the respective approvals in order to conclude the final budget.

The Nakuru County Assembly Car Loan and Mortgage Scheme Fund '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 7.5 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 Nakuru County Assembly Car Loan and Mortgage Scheme Fund 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 Nakuru County Assembly Car Loan and Mortgage Scheme Fund determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of 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 County Assembly of Nakuru Car Loan and Mortgage Fund 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 County Assembly of Nakuru Car Loan and Mortgage Fund assesses at each reporting date whether there is objective evidence that a financial asset or an Nakuru County Assembly Car Loan and Mortgage Scheme Fund of financial assets is impaired. A financial asset or an Nakuru County Assembly Car Loan and Mortgage Scheme Fund 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 Nakuru County Assembly Car Loan and Mortgage Scheme Fund of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an Nakuru County Assembly Car Loan and Mortgage Scheme Fund 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 County Assembly of Nakuru Car Loan and Mortgage Fund 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 County Assembly of Nakuru Car Loan and Mortgage Fund.

9. Provisions

Provisions are recognized when the County Assembly of Nakuru Car Loan and Mortgage Fund 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 County Assembly of Nakuru Car Loan and Mortgage Fund 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 County Assembly of Nakuru Car Loan and Mortgage Fund 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 County Assembly of Nakuru Car Loan and Mortgage Fund 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 County Assembly of Nakuru Car Loan and Mortgage Fund 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. Changes in accounting policies and estimates

The County Assembly of Nakuru Car Loan and Mortgage Fund recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

11. Employee benefits– Retirement benefit plans

The County Assembly of Nakuru Car Loan and Mortgage Fund provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an Nakuru County Assembly Car Loan and Mortgage Scheme Fund pays fixed contributions into a separate Nakuru County Assembly Car Loan and Mortgage Scheme Fund (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.

12. Foreign currency transactions

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13. Borrowing costs

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

14. Related parties

The County Assembly of Nakuru Car Loan and Mortgage Fund regards a related party as a person or an Nakuru County Assembly Car Loan and Mortgage Scheme Fund with the ability to exert control individually or jointly, or to exercise significant influence over County Assembly of Nakuru Car Loan and Mortgage Fund, or vice versa. Members of key management are regarded as related parties and comprise the Directors, The Clerk and Senior Managers.

15. Cash and cash equivalents

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

16. Comparative figures

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

17. Events after the reporting period

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

18. Ultimate and Holding Nakuru County Assembly Car Loan and Mortgage Scheme Fund

The Nakuru County Assembly Car Loan and Mortgage Fund was established under the Public Finance County Assembly of Nakuru Car Loan (Members) Scheme Fund Regulations, 2018 and the Public Finance County Assembly of Nakuru Mortgage (Members) Scheme Fund Regulations, 2018. The regulations were amended on 15th January, 2018. The Fund is wholly owned by the County Assembly of Nakuru and is domiciled in Kenya. Its ultimate parent is the County Government of Nakuru.

19. Currency

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

20. Significant judgments and sources of estimation uncertainty

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

Estimates and assumptions – The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Nakuru County Assembly Car Loan and Mortgage Scheme Fund 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 County Assembly of Nakuru Car Loan and Mortgage Fund. 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 County Assembly of Nakuru Car Loan and Mortgage Fund

- The nature of the asset, its susceptibility and adaptability to changes in technology and processes

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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

21. Financial risk management

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Nakuru County Assembly Car Loan and Mortgage Scheme Fund 's short, medium and long-term funding and liquidity management requirements. The County Assembly of Nakuru Car Loan and Mortgage Fund manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

c) Market risk

The Management has put in place an internal audit function to assist it in assessing the risk faced by the Nakuru County Assembly Car Loan and Mortgage Scheme Fund on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

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

The 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 Nakuru County Assembly Car Loan and Mortgage Scheme Fund 's exposure to market risks or the manner in which it manages and measures the risk.

i. Interest rate risk

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

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sensitivity analysis

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Nakuru County Assembly Car Loan and Mortgage Scheme Fund capital structure comprises of the following funds:

	2018-2019 KES		2017-2018 KES
Revaluation reserve	-		-
Revolving fund	457,153,529		457,153,529
Accumulated surplus	26,994,242		17,937,546
Total funds	**484,147,771**		**475,091,075**
Total borrowings	-		-
Less: cash and bank balances	16,276,477		47,805,548
cash and cash equivalents / Net debt	467,871,294		427,285,527
Gearing	**3.48%**		**11.19%**

7.7. NOTES TO THE FINANCIAL STATEMENTS

1. Transfer from County Government

Description	FY 2018-2019	FY 2017-2018
	KES	KES
Transfers from County Government	-	133,868,013
Payments by County on behalf of the Nakuru County Assembly Car Loan and Mortgage Scheme Fund	-	-
Total	**-**	**133,868,013**

2. Interest income

Description	FY 2018-2019	FY 2017/2018
	KES	KES
Interest income from loans (mortgage or car loans)	13,606,203	9,358,078
Total interest income	13,606,203	9,358,078

3. Fund administration expenses

Description	FY 2018-2019	FY 2017-2018
Professional services costs	4,535,401	2,815,766
Total	**4,535,401**	**2,815,766**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. General expenses

Description	FY 2018-2019	FY 2017-2018
	KES	KES
Loan Disbursements		
Bank Charges and ledger fees	439,863	13,200
Total	**439,863**	**13,200**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. **Cash and cash equivalents**

Description	FY 2018-2019	FY 2017-2018
	KES	KES
Main Fund Account	5,867,838	28,807,166
Interest Account	792,814	4,775,613
Loan Principal Account	-	6,817,810
Remittance Account	9,613,416	7,402,551
Total cash and cash equivalents	**16,274,069**	**47,803,140**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Financial institution	Account number	FY 2018-2019 KES	FY 2017-2018 KES
c) Current account			
FAMILY BANK MAIN ACCOUNT	18000055807	5,867,838	28,807,166
INTEREST ACCOUNT	18000067410	792,814	4,775,613
LOAN PRINCIPAL ACCOUNT	18000073215	-	6,817,810
LOAN REMMITANCE ACCOUNT	1800073217	9,613,416	7,402,551
Sub- total		**16,274,069**	**47,803,140**
Grand total		**16,274,069**	**47,803,140**

6. Receivables from exchange transactions

Description	FY 2018-2019 KES	FY 2017-2018 KES
Current Receivables		
Interest receivable	**1,024,000**	**964,993**
Current loan repayments due	**108,928,380**	**108,375,263**
Other exchange debtors		
Less: impairment allowance		
Total Current receivables	**109,952,380**	**109,340,256**
Non-Current receivables		
Long term loan repayments due	**355,588,202**	**316,040,316**
Total Non-current receivables	**355,588,202**	**316,040,316**
Total receivables from exchange transactions	**465,540,582**	**425,380,572**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Cash generated from operations

	FY 2018-2019	FY 2017-2018
	KES	KES
Surplus for the year before tax		
Adjusted for:		
Depreciation		
Gains/losses on disposal of assets		
Interest income	13,606,203	9,358,078
Finance cost	(4,975,264)	(2,828,966)
Working Capital adjustments		
Increase in inventory		
Increase in receivables		
Increase in payables		
Net cash flow from operating activities	**8,630,939**	**6,529,112**

REPUBLIC OF KENYA

SCANNED

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KAKAMEGA COUNTY MICROFINANCE CORPORATION

FOR THE YEAR ENDED 30 JUNE, 2020

COUNTY GOVERNMENT OF KAKAMEGA
KAKAMEGA COUNTY MICROFINANCE CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30TH JUNE, 2020

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

TABLE OF CONTENTS

1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The Kakamega County Microfinance Corporation was established by the County Government of Kakamega through the Kakamega County Microfinance Corporation Act, 2018 and commenced operations in the financial year 2019-2020. The Corporation is wholly owned by the County Government of Kakamega and is domiciled in Kenya.

b) Principal Activities

The principal activity of the Corporation is to provide microfinance banking services to micro, small and medium enterprises in the County. This will in turn spur socio-economic development in the County.

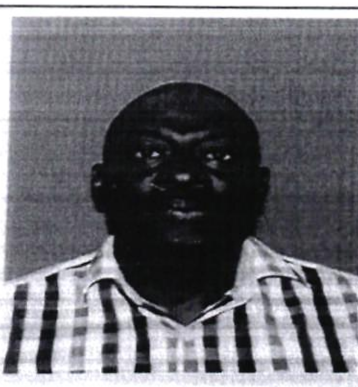
c) Key Management

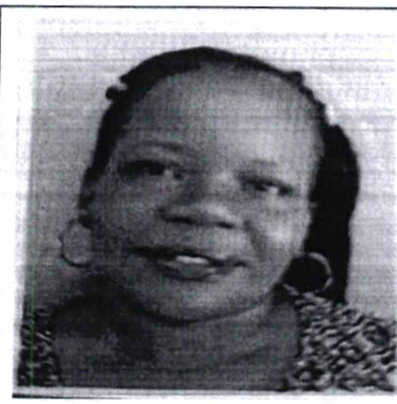
The Kakamega County Microfinance Corporation day-to-day management is under the Ministry of Trade, Industrialization and Tourism.

d) Board of Directors

Ref	Name	Position
1	Christopher Aleke Dondo	Chairperson
2	Protas Inziani Khasiani	Member
3	Benta Achieng Okoth	Member
4	Gideon Olieki Kato	Member
5	Gilbert Wafula Nyongesa	Member
6	Fanuel Wemali Angaya (Chief Officer, MTIT)	Member
7	Amb. James Ochami (Chief Officer, Finance)	Member
8	Moses Lukale Sande (County Attorney)	Member


Christopher Aleke Dondo
Chairman


Protas Inziani Khasiani
Member


Benta Achieng Okoth
Member

 Gideon Olieki Kato Member	 Gilbert Wafula Nyongesa Member	 Fanuel Wemali Angaya (Chief Officer, MTIT) Member
 Amb. James Ochami (Chief Officer, Finance) Member	 Vivianne M. Komwonyo Rep. County Attorney Member	 John Baraza Wangwe Ag:-Chief Executive Officer Member

e) Key Management

Ref	Name	Position
1	John Baraza Wangwe	Ag:-Chief Executive Officer
2	Stephen W.A. Makokha	Micro, Small and Medium Enterprises Development Officer

f) Fiduciary Oversight Arrangements

- **County Assembly of Kakamega**
  - To oversight and provide legislative framework for the Corporation to ensure accountability.
- **Auditor General**
  - To audit the Corporation's operations and systems with a view of identifying gaps and making recommendations for improvement to enhance accountability.

- **Controller of Budget**
  - ❖ To authorize and approve withdrawal and expenditure of the Corporation's budgeted funds.

- **National Treasury**
  - ❖ To disburse budgeted funds to the County Governments and subsequently to the Corporation for expenditure in line with approved budgets.
  - ❖ To advise on the implementation of budgets by County Governments and its entities.

g) Kakamega County Headquarters

P.O. Box 36-50100, 056 31850/31852/31853
County Headquarters
Kisumu/Kitale Highway
Kakamega, KENYA

h) Kakamega County Microfinance Corporation Contacts

Telephone: 056 31850/31852/31853
E-mail: kcmfc@kakamega.go.ke
Website: kakamega.go.ke

i) Entity Bankers

KCB Ltd-Kakamega branch

j) Independent Auditors

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

k) Principal Legal Adviser

County Attorney
County Government of Kakamega
P.O Box 36-50100
Kakamega, Kenya

2. THE BOARD OF DIRECTORS

Name	Details of qualifications and experience
Christopher Aleke Dondo	MA Economics- Has wide experience in the microfinance industry having served as Deputy MD and MD for K Rep Development Agency. Currently he is the Principal consultant at Legacy Consulting Ltd a consultancy firm in microfinance and governance.
Protas Inziani Khasiani	MBA (Banking and Finance) Has vast experience in the banking industry having worked as a senior manager in the said industry for more than 15 years. Currently, he is the Executive Director of Klientele Ltd, a consultancy firm in business process re-engineering and change.
Benta Achieng Okoth	PhD candidate, MBA (Marketing) Has been an administrator for more than 9 years. Currently serving as a lecturer at Jaramogi Oginga Odinga University of Science and Technology
Gideon Olieki Kato	MBA (Strategic Management) Has worked in the microfinance and sugar industry for more than 5 years. Currently serving as a lecturer at MMUST
Gilbert Wafula Nyongesa	MBA(Finance), CPA(K), CPS(K) Has been a general manager and Finance and administration manager for more than 15 years in the Sacco industry. Currently is serving as a director at Bukura Agricultural College.
Fanuel Wemali Angaya	Chief Officer, MTIT
Amb. James Ochami	Chief Officer, Finance
Moses Lukale Sande	County Attorney

3. MANAGEMENT TEAM

Name	Details of qualifications and experience
1. John Baraza Wangwe	PhD candidate (M&E), MA (Environmental Planning), Senior Management course and Strategic Leadership Development course. Has served as the Deputy Director of Water at NEMA for more than 15 years. Has also served as the CECM for Water, Environment and Natural resources at the County Government of Kakamega. Currently, he is the Ag. Chief Executive Officer of the Corporation.
2. Stephen W.A Makokha	MBA(Finance), CPA II Has over 10 years of experience in the banking and microfinance industries. Currently he is the Micro, Small and Medium Enterprises Development Officer of the Corporation.

BOARD CHAIRPERSON'S REPORT

Kakamega County Microfinance Corporation was established by an Act of the County Assembly in the year 2018 with the main mandate of providing financial solutions to micro, small and medium traders within the County. It began its operations in the financial year 2019/2020 but due to financial challenges, loaning which is its core mandate did not kick off.

The Corporation begun as a credit only microfinance but the ultimate goal is to become a microfinance bank as envisioned by the County Leadership.

In view of the foregoing, the Corporation must create a bigger impact on enterprise development in order to play its rightful role in the county and/or nation's development by rethinking its business model to reach more businesses efficiently, effectively and in a sustainable manner. The Corporation must also be an attractive partner in youth and women economic empowerment to attract funding from all potential sources and win the confidence and goodwill of all Kakamega business people. The Corporation's capacity to deliver the strategy is critical. Its legal, policy, instructional, technological and competence frameworks shall be adequately strengthened over time and an environment conducive to attract and retain requisite skills created.

To remain sustainable in the long run and reduce its dependence on government funding, the Corporation shall expand and restructure its product portfolio, diversify its sources of funding and adopt a business approach in its operations.

In conclusion, I call on all stakeholders to effectively play their part in supporting the Corporation to realize its mandate. It will require a lot of dedication, success and hardworking on the part of all stakeholders to make this big dream comes true.

Christopher Aleke Dondo
Board Chairperson

4. REPORT OF THE CORPORATION'S ACCOUNTING OFFICER

The Kakamega County Microfinance Corporation presents its financial statements for the period ended 30th June, 2020 in accordance with the format prescibed by the Public Sector Accounting Standards Board. The Kakamega County Microfinance Corporation operates as a semi autonomous agency controlled by the County Government of Kenya. It will provide focussed attention on the traders' financial needs and also ensure that the disbursed loans are repaid on time in order to benefit as many traders as possible. The Corporation began its operations in the year under review. The loaning function did not start in the financial year because the Corporation was in the process of putting loaning structures in place. The function therefore is scheduled to commence in the new financial year 2020/2021.

John Baraza Wangwe
Ag. Chief Executive Officer

5. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Sections 182 (1) of the PFM Act, 2012 provides for establishment of a County Corporation by the County Executive Committee Member and the County Assembly.

Section 6 of the Kakamega County Microfinance Corporation Act, 2018 provides for the establishment of the Board of Directors who are responsible for leadership role of the Corporation. The Chief Executive Officer appointed by the Governor shall be the accounting officer for the Corporation shall be responsible for the day to day management of the affairs of the Corporation (sec 13 of the Kakamega County Microfinance Corporation Act, 2018).

Section 208 of the PFM Regulations of 2015 and pursuant to section 165(5) of the PFM Act, 2012 provides that the accounting officer for a County Corporation shall prepare and submit annual financial and non-financial statements in the format gazetted by the Cabinet Secretary within three months after the end of the financial year to the Auditor-General with copies to the responsible County Executive Committee member and the County Treasury. Section 24(3) of the Kakamega County Microfinance Corporation Act, 2018 also provides that annual accounts of the Corporation shall be prepared, audited and reported upon.

The Accounting Officer of the Corporation confirms that the Corporation has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Further the Accounting Officer confirms that the Microfinance Corporation's financial statements for financial year 2019-2020 have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The County Government's financial statements were approved and signed by the accounting Officer of the Corporation on 29th Sept. 2020

Ag. Chief Executive Officer

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KAKAMEGA COUNTY MICROFINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kakamega County Microfinance Corporation set out on pages 11 to 27, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kakamega County Trade Loans Fund as at 30 June, 2019, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kakamega County Microfinance Corporation Act, 2018 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Presentation of the Financial Statements

The financial statements are incomplete and lack important information for the intended users as they do not have the corporate governance statement, management discussion and analysis report and the environmental and sustainability report. In addition, significant accounting policy No. 2(c) relating to early adoption of new standards is not clear.

Further, the statement of financial performance reflects transfers from the County Government amount of Kshs.42,500,000 to the Corporation during the year under review as the initial capital contribution. However, the entire amount of Kshs.42,500,000 was recognised as revenue which means the entire amount was for operational expenses of the corporation and nothing was available for lending in accordance with the mandate of the corporation. Under the accrual basis of accounting, revenue earned by the Corporation should have been in the form of interest earned from loans advanced to micro, small and medium enterprises within Kakamega County or interest earned on the balance held in the bank. In addition, the statement of financial performance for the year ended 30 June, 2020 reflects a surplus of Kshs.41,489,892 which was however not as a result of the activities of the Corporation.

Consequently, the financial statements do not provide accurate information about the sources, allocation and uses of financial resources; and have not complied with the format prescribed by the International Public Sector Accounting Standards (Accrual Basis) and the Public Sector Accounting Standards Board (PSASB).

2.0 Lack of an Approved Budget

During the year under review, the Corporation operated without an approved budget contrary to Regulation 205(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that the County Executive Committee Member responsible for the county corporation shall approve the estimates of budget of the county corporation and shall, not later than end of January every year, submit to the County Treasury for approval of those estimates for the following financial year and that the Budget estimates submitted shall be classified as, compensation of employees, use of goods and services, transfers to other levels of government and capital.

In addition, the budget document presented to the Board of Directors for approval did not determine the financial and economic policies and priorities in the medium term as required. The estimates were also not prepared in the form of a budget policy statement of the entity's revenues and expenditures and in line with the County's fiscal strategy paper. Further, the budget proposal presented for approval did not indicate/differentiate capital expenditure from revenue expenditure.

Consequently, the Management is in breach of the Law. Further, the basis under which the Corporation received and expended the funds from the County Government could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kakamega County Microfinance Corporation 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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final expenditure budget of Kshs.42,500,000 as compared to actual expenditure of Kshs.1,010,108 thereby resulting to an under performance of Kshs.41,489,892 or approximately 98% of the budget including non-disbursement of loans budgeted at Kshs.25,245,000.

Consequently, the objective of the corporation of disbursing loans to the micro, small and medium enterprises was not achieved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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

REPORT ON EFFECTIVENES 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 those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Corporation or to cease operations.

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

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

The Board of Directors are responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how the entity 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 about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal 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 Fund policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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 Corporation's ability to continue as a going concern . 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 Corporation 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.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation 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.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

09 February, 2022

7. FINANCIAL STATEMENTS

7.1 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2020.

	Note	FY2019/2020	FY2018/2019
		KShs	KShs
Revenue from non-exchange transactions			
Transfers from the County Government	1	42,500,000	-
Total revenue		**42,500,000**	-
Expenses			
General expenses	2	1,007,938	-
Finance costs	3	2,170	-
Total expenses		**1,010,108**	-
Surplus/(deficit) for the period		**41,489,892**	-

7.2 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020.

	Note	FY2019/2020 KShs	FY2018/2019 KShs
Assets			
Current assets			
Cash and cash equivalents	**4**	40,856,134	-
Non-Current Assets			
Property, plant and equipment	**6**	633,758	-
Total assets		**41,489,892**	
Accumulated surplus		41,489,892	-
Total net assets and liabilities		**41,489,892**	**-**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity's financial statements were approved on 29th Sept. 2020 2020 and signed by:

Accounting Officer of the Corporation

Name: John Barasa Wangwe

Ag. Chief Executive Officer

Corporation's Accountant

Name: CPA Kulova David Mulafari

ICPAK Member Number: 10990

7.3 STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2020

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2018	-	-	-	-
Balance as at 30 June 2019	-	-	-	-
Balance as at 1 July 2019	-	-	-	-
Surplus/(deficit) for the period	-	-	41,489,892	**41,489,892**
Balance as at 30 June 2020	-	-	**41,489,892**	**41,489,892**

7.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	FY 2019/2020 KShs	FY 2018/2019 KShs
Cash flows from operating activities			
Receipts			
Transfers from the County Government	1	42,500,000	-
Total Receipts		**42,500,000**	-
Payments			
General expenses	2	1,007,938	-
Finance cost	3	2,170	-
Total Payments		**1,010,108**	-
Net cash flows from operating activities	5	**41,489,892**	-
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	6	644,500	-
Less depreciation		(10,742)	
Net cash flows used in investing activities		**633,758**	-
Cash flows from financing activities			
Net cash flows used in financing activities			
Net increase/(decrease) in cash and cash equivalents		40,856,134	-
Cash and cash equivalents at 1 JULY			
Cash and cash equivalents at 30th JUNE	4	**40,856,134**	-

The Cash flow statement has been prepared using direct method.

7.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2020

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilization
	2020	2020	2020	2020	2020	2020
Revenue	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	
Transfers from County Govt.	5,000,000	37,500,000	42,500,000	42,500,000	-	1
Total income	**5,000,000**	**37,500,000**	**42,500,000**	**42,500,000**	**-**	1
Expenses						
Loans disbursement	-	25,245,000	25,245,000	-		
General expenses	5,000,000	12,250,000	17,250,000	1,007,938	16,242,062	
Finance cost	-	5,000	5,000	2,170	2,830	
Total expenditure	**5,000,000**	**37,500,000**	**42,500,000**	**1,010,108**	**16,287,888**	
Surplus for the period	**-**	**-**	**-**	**41,489,892**		

8. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

The Corporation'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 Corporation. 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 2016

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	**Applicable: 1st January 2016** The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	**Applicable: 1st January 2016:** 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 which are covered purely under Public Sector combinations as amalgamations.

c) Early adoption of standards

The entity has adopted requisite standards as prescribed by the Public Sector Accounting Standards Board in the preparation of this Financial Statements.

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

Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

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

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

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

There are no comparative figures for the previous year since the Corporation began its operations during the year under audit review.

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 Corporation established by The Kakamega County Microfinance Corporation Act, 2018 under the Ministry of Trade, Industrialization and Tourism. Its ultimate parent is the County Government of Kakamega.

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.

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.

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.

9. NOTES TO THE FINANCIAL STATEMENTS

1.Transfers from County Government

Description	FY2019/2020 KShs	FY2018/2019 KShs
Transfers from County Govt. – operations	42,500,000	-
Refund	-	-
Payments by County on behalf of the entity	-	-
Total	42,500,000	-

2.General expenses

Description	FY2019/2020 KShs	FY2018/2019 KShs
Training	218,800	-
Boards and committees	439,650	-
Fuel and oil costs	-	-
Travel Cost	-	-
Catering	-	-
Supplies and accessories	-	-
Printing and stationery	-	-
Newspapers	-	-
Advertisement	124,450	
Daily Subsistence	100,000	-
Maintenance of Motor Vehicles	-	-
Sanitary and cleaning services	42,996	-
General office supplies	71,300	-
Depreciation and amortization costs	10,742	-
Other expenses	-	-
Total	**1,007,938**	-

3.Finance costs

Description	FY2019/2020 KShs	FY2018/2019 KShs
Bank charges	2,170	-
Loan arrears Penalties	-	-
Total	**2,170**	-

4.Cash and cash equivalents

Description	FY2019/2020 KShs	FY2018/2019 KShs
Fixed deposits account	-	-
On – call deposits	-	-
Current account-operations	40,856,134	-
Fund account	-	-
Total cash and cash equivalents	**40,856,134**	-

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

Financial institution	Account number	FY2019/2020 KShs
c) Current account		
Kenya Commercial bank	1258591545	40,856,134
Sub- total		**40,856,134**
Grand total		**40,856,134**

5.Cash generated from operations

	FY2019/2020 KShs	FY2018/2019 KShs
Surplus for the year before tax	**41,489,892**	
Adjusted for:		
Depreciation	-	-
Gains/ losses on disposal of assets	-	-
Interest income	-	-
Finance cost	-	-
Working Capital adjustments		
Increase in inventory	-	-
Increase in receivables	-	-
Increase in payables	-	-
Net cash flow from operating activities	**41,489,892**	-

6. Property, plant and equipment

	Land and Buildings	Motor vehicles	Furniture and fittings	Computers and office equipment	Total
Cost	KShs	KShs	KShs	KShs	KShs
At 1st July 2019					
Additions			644,500		**644,500**
Disposals			-		-
Transfers/adjustments			-		-
Depreciation			10,742		**10,742**
Impairment			-		-
At 30th June 2020			**633,758**		**633,758**

7. Related party balances

a) Nature of related party relationships

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

a) The County Government of Kakamega
b) County Government of Kakamega ministry of Trade, Industrialization and Tourism
c) Key management
d) Board Members

10. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

There are no matters for follow up since this was the first financial year of operations.