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REPORT

OF

THE AUDITOR-GENERAL

ON

**KISII COUNTY ASSEMBLY CAR LOAN
AND MORTGAGE FUND**

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



KISII COUNTY ASSEMBLY



CAR LOAN AND MORTGAGE FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2021

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

KISII COUNTY ASSEMBLY - CAR LOAN AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2021

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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

Kisii County Assembly Members' Loan and Mortgage Fund is established by and derives its authority and accountability from Kisii County Assembly Members' Loan and Mortgage Fund Act, 2014. The Fund is wholly owned by the County Government of Kisii and is domiciled in Kenya.

The object and the purpose of the fund is to enable loans and mortgages to be advanced to members and employees of the Kisii County Assembly as maybe prescribed by the Salaries and Remuneration Commission (SRC).

Section 116 of the Public Finance Management Act, 2012 empowers the County Executive Committee member for Finance to establish County Public Funds with approval of the County Executive Committee and the County Assembly. Subsection 7 requires the administrator of the County public fund to prepare accounts for each financial year and submit them to the Auditor General.

Arising from the above mentioned provisions and as advised by the Salaries and Remuneration Commission (SRC) on the benefits to be enjoyed by the members of the County Assemblies, vide circular ref; SRC/TC/CGOVT/3/16 dated 27th November, 2013, the Kisii County Executive Committee Member for Finance and Economic Planning authorised the establishment of the Car loan and Mortgage scheme fund with the approval of County Assembly in April 2014. Chase Bank (K) was subsequently appointed the first administrator of the Fund. Currently State Bank of Mauritius (SBM BANK) is the administrator of the Fund after Chase Bank Ltd went under Receivership in April 2016.

b) Principal Activities

The principal activity/mission/ mandate of the Fund is to provide Mortgages and Car loans to Members of Kisii County Assembly and Staff.

Vision

“A model fund of choice for Members and Staff of County Assembly of Kisii.”

Mission

“To provide affordable, accessible and sustainable Mortgages and Car loans to Members and Staff of County Assembly of Kisii.”

Core Values

The fund upholds the values of accountability, transparency, excellence, accessibility, integrity, responsiveness, equity and team work.

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c) Board of Trustees/Fund Administration Committee

The Kisii County Assembly Members' Loan and Mortgage Fund Act, 2014, provides for the establishment of a Loan and Mortgages Management Committee which shall be responsible for the general administration and management of the affairs of the fund.

Ref	Name	Designation	Position
1	Hon. Timothy Ogugu	Leader of Majority Party	Chairperson
2	Hon James Ondari	Leader of Minority Party	Vice chairperson
3	Hon. Clare Obino	MCA	Member
4	Hon. Ibrahim Mose	MCA	Member
5	Dr.JoashKerongo	CASB Member	Member
6	Mr. James Nyaoga	Clerk	Secretary
7	Mr. Moses Ratemo	Principal Accountant	Member
8	Mr. Robin Nyakundi	Finance Officer	Member
9	Ms Brenda Nyamweya	Legal Officer	Member

d) Key Management

Ref	Name	Position
1	JacklineKinyanjui	Fund Administrator
2	Dennis Aamba	Fund Accountant

e) Registered Offices

P.O. Box 4552- 40200
Old Municipal Building
Kisii - Kilgoris Road/Highway
Kisii, KENYA

f) Fund Contacts

Telephone: (254) 0208029160
E-mail: countyassembly@kisii.go.ke
Website: www.kisii.go.ke

g) FundBankers

1. Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

2. SBM Bank Limited
Kisii Branch
P.O Box 34886-00100
Nairobi.

h) Independent Auditors



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

i) Principal Legal Adviser

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



2. THE BOARD OF TRUSTEES

The board of trustees during the financial year consisted of:

 <p>Mr. James Nyaoga The Clerk Secretary, CASB</p>	<p>Mr. James Nyaoga was appointed the first Clerk – Kisii County Assembly in the year 2013- the advent of devolution, and continues to serve in the same position to date.</p> <p>Mr. Nyaoga, PhD student in Planning and Economics, holds two Masters Degrees in Planning and Economics of Education and Public Policy and Analysis respectively.</p> <p>A career civil servant, Mr. Nyaoga has served the Government in various positions.</p> <p>Prior to his appointment as the Clerk, he was the coordinator and head author of the National Public and Policy Hand Book while working at the Office of the Prime Minister.</p> <p>He also serves as the Secretary to the Service Board (CASB).</p>
 <p>Hon. Timothy Ogugu MCA - Magenche Ward Leader of Majority</p>	<p><u>Hon. Timothy Ogugu</u> – Chair – Board of Trustees</p> <p>Hon. Timothy Ogugu was elected as appointed as the first chair of the board of trustees. He is a member of ICPAK practising as an accountant, holds a bachelor’s degree in business Management from Maasai Mara University. CDF chairman Bomachoge and MCA Bomachoge Ward Kisii County. Before his appointment, he served as a senior accountant at the National Treasury.</p>
 <p>Ms Jackline Kinyanjui- Fund Administrator</p>	<p>Ms. Jackline Kinyanjui – Fund Administrator</p> <p>Ms. Jackline Kinyanjui was appointed as the Fund Administrator on 8th August 2017.</p> <p>Ms Jackline is Currently serving as a branch manager, SBM bank Kenya Limited.</p> <p>She holds Bachelors of Science in international Business Administration, Finance & Marketing from USIU University.</p> <p>Masters in Business Administration Finance Option from USIU University.</p> <p>She is an expert in business acquisition, Service delivery and Risk & Compliance</p>

3. MANAGEMENT TEAM

The management during the financial year consisted of:

 <p>Ms JacklineKinyanjui- Fund Administrator</p>	<p>Ms. JacklineKinyanjui–Fund Administrator Ms. JacklineKinyanjui was appointed as the Fund Administrator on 8th August 2017. Ms Jackline is Currently serving as a branch manager, SBM bank Kenya Limited. She holds Bachelors of Science in international Business Administration, Finance & Marketing from USIU University. Masters in Business Administration Finance Option from USIU University. She is an expert in business acquisition, Service delivery and Risk & Compliance</p>
 <p>Mr. Dennis Aamba Fund Accountant</p>	<p>Mr. Dennis Aamba–Fund Accountant Mr. Dennis Aamba is currently serving as a Financial Accountant at Kisii County Assembly. He holds a Bachelor of Business administration Accounting option from Maasai Mara University, Masters in Business Administration Finance Option from The University Of Nairobi and is currently pursuing a PHD in Business administration from The University of Nairobi. He is a member of ICPAK. Heboasts 10Years’ experience in Accounting, Audit and Finance in Public Service.</p>

4. BOARD/FUND CHAIRPERSON'S REPORT

The Financial Statements of the Kisii County Assembly Members' Loan and Mortgage Fund was prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS) and in compliance with Section 107 and 149 of Public Finance Management Act, 2012.

The principal objective and purpose of establishing the fund was to enable members of the County Assembly and Staff to acquire Car loans and Mortgage facilities. This would better their Economic and Social welfare and improve on Service Delivery in their line of duty. The Salaries and Remuneration Commission (SRC), through gazette notice No. 6516 dated 7th July, 2017 gave guidelines on the benefits to be enjoyed by each member. It allowed Members of the County Assembly a maximum Car loan of up to Kshs. 2 Million and a Mortgage facility not exceeding Kshs. 3 Million. However, the commission reviewed this arrangement and allowed merging of the Car loan and Mortgage benefit for MCAs and advised that the benefits could be consolidated as one and be capped at Kshs. 5 Million for purchase of a Car and/or Mortgage facility. This was through Circular Ref. No: SRC/TS/CAF/3/61/49(46) dated 13 December, 2017.

In this Second Assembly, the Management of the Fund has cumulatively advanced a total of Kshs. 351,670,000 Car Loan and Mortgage funds to its Members. As at the Financial Year ended 30th, June 2021 all the County Assembly Members including the Speaker had benefited from this Facility. We are glad that the Recovery process has been going on smoothly and almost 52% of the loans disbursed (Kshs 182,842,832) has been recovered leaving Kshs. 168,827,168 outstanding. It is our belief that this balance shall be cleared before the end of the current members' term in the Year 2022.

Further, the Fund Management Committee is deliberating on possible modalities of ensuring that Members of staff start benefiting from this facility in the coming Financial Year.

I look forward to your continued support in the year 2021/2022.

Signed: _____



Hon. Timothy Ogugu
Board Chairman

5. REPORT OF THE FUND ADMINISTRATOR

We entered into a Memorandum of Understanding with the Kisii County Assembly Service Board on 6th December 2017 after a series of meetings. During that period i.e. from 2013 to 2017, we disbursed Kshs. 260 million to 72 members of County Assembly. By the time we were disbursing the loans, nearly all members of County Assembly did not qualify for full amounts because enough seed money was not deposited with the bank as the Assembly appeared to have funding challenges. This explains the fact that only Kshs. 260 million was disbursed to MCAs as opposed to Kshs. 360 million that would have allowed disbursement of Kshs. 5 million to each MCA as per the SRC guidelines then.

By August 2017, all loans had been fully repaid. We did not face any challenges in recoveries save for the fact that the bank (Chase Bank Ltd) was put under receivership in April 2016. In the month of September 2017, the County Assembly Service Board asked for a full refund of Kshs. 260 million from the bank. During this period, the bank was under receivership and such refund would not have been possible. A number of meetings were held between the Bank, The Receiver Manager and the Kisii County Assembly Service Board. Subsequently, with the concurrence of the Central Bank of Kenya, funds were availed to the tune of Kshs. 336 million for disbursement to the MCAs. This was not enough and once again the Assembly could not provide enough funds to be disburse to all MCAs.

Since then, a total of 72 loan beneficiaries have made borrowings amounting to KShs 351,670,000. Of this, KShs 295,028,588 had been paid and KShs 56,641,412 was outstanding as at the reporting date. On our part we ensured that all loans were insured. Recoveries have been consistent and up to date.

It is my pleasure to present the Kisii County Car loan and Mortgage Fund financial statements for the year ended 30th June 2021. The financial statements present the financial performance of the fund over the past year.

Financial Performance

a) Revenue

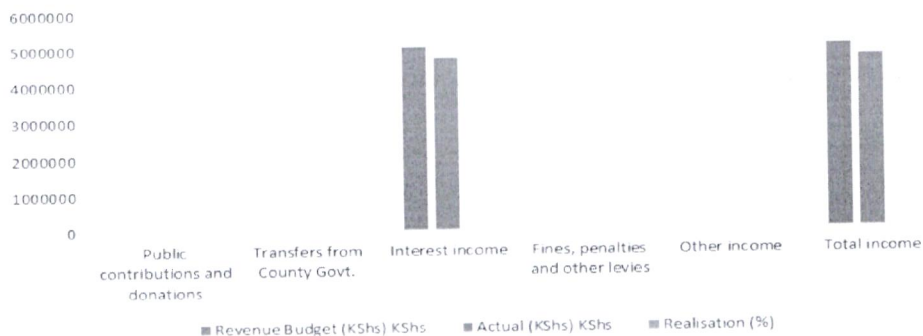
In the year ended 30th June 2021, the fund had projected revenues of KShs 5,064,815. Out of the projected revenue, the fund was able to realise KShs 4,758,954 in actual revenues, representing 94% performance.

In the table below, we present an analysis of revenue performance during the year.

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Revenue classification	Revenue budget (KShs)	Actual (KShs)	Realisation (%)
Revenue	KShs	KShs	
Public contributions and donations	0	0	0
Transfers from County Govt.	0	0	0
Interest income	5,064,815	4,758,954	94%
Fines, penalties and other levies	0	0	0
Other income	0	0	0
Total income	5,064,815	4,758,954	94%

COMPARISON BETWEEN REVENUE BUDGET AND ACTUAL.



b) Loans

During the financial year 2020/2021, the fund disbursed 1 new loan bringing the total loan beneficiaries to date to 72. This was a loan that was advanced to a newly elected member of the County Assembly following a by-election at Kiamokama Ward.

Cash flows

In the FY 2020/2021, we have had some liquidity disruptions. This of the SRC converting Car Loans advanced to members of the County Assembly into a transport facilitation benefit. The cash and cash equivalents decreased from KShs **171,172,832** as at 30th June 2020 to KShs **141,358,588** as at 30th June 2021.

e) Conclusion

FY 2020/2021 was a good year in general. Good progress was made and the momentum has been created to enable Kisii Car loan & Mortgage fund continue on a trajectory into prosperity. We have identified gaps and areas to improve on in the subsequent years.

I take this opportunity to thank the board of trustees for their support. I would also want to thank all the members of the County Assembly and staff who we have worked with hand in hand to ensure that Kisii Car loan & Mortgage fund achieves its mission.

Signed:  _____

Name:

SBM Bank.

6. CORPORATE GOVERNANCE STATEMENT

THE BOARD

The Kisii County Assembly Car Loan Scheme is a revolving fund established pursuant to the Salaries and Remuneration Commission (SRC) circular number SRC/TS/WH/3/14 of 14th February 2014. Section 167 of the Public Finance Management (PFM) Act 2012. Its mandate is to provide car loans and mortgage to members of the County Assembly and staff. The fund is committed to ensuring compliance with regulatory and supervisory corporate governance requirements. Essential to the establishment of a corporate governance framework in the fund is a formal governance structure with the board of trustees at its apex. The operations of the fund are governed by Kisii County Assembly Car Loan and Mortgage Act 2014. The structure is designed to ensure an informed decision making process based on accurate reporting to the board.

THE BOARD OF TRUSTEES

Kisii County Assembly Car Loan and Mortgage Act 2014 provides that the board of trustees shall be made up of five trustees, including the chairman, and shall consist of a chairperson and four other members identified for appointment through a competitive process. The board of trustees is responsible for the long-term strategic direction of the fund and recruitment of the Fund Administrator and senior management. The board of trustees exercises leadership, enterprise, integrity and judgment in directing the Fund.

The trustees are provided with full, appropriate and timely information that enables them to maintain full and effective control over the strategic, financial, operational and compliance issues. The day-to-day running of the operations of the fund is delegated to the fund administrator but the board of trustees is responsible for establishing and maintaining the fund's system of internal controls for the realization of its mandate of providing financial support for improved access to water and sanitation in areas without adequate services.

All members of the board of trustees have been taken through a comprehensive induction programme, and are adequately trained on their roles as board members. The trustees are professional, committed and guided by the mission, vision and core values of the Fund in execution of their duties. At the end of each financial year, the board, its committees, individual trustees and the Fund Administrator are evaluated by an independent body against targets agreed to at the beginning of the year.

BOARD MEETINGS

The board of trustees meets quarterly or as required in order to monitor the implementation of the fund's strategic plan and achievement of the targets in the performance contract signed with the county assembly. The board of trustees also plays an oversight role over all other financial and operational issues. The trustees held seven full board and two special board meetings during the FY 2020/2021.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

AUDIT AND RISK COMMITTEE

In ensuring that corporate governance and integrity is enhanced in between the governance of the fund, the board of trustees has established an audit and risk committee. The committee was established to advise the board of trustees on institutional risk management and compliance. The committee held five meetings during the year. The committee also met the Fund's external auditors KENAO to deliberate on risk management issues. The members of this committee during the year under review were:

S/No.	Name	Position in committee	Period Served
1	Rose Bosibori Osoro	Chairperson	3 rd December 2018 to date
2	Bosco Peter Onsembe	Member	3 rd December 2018 to date
3	Enock Ombui Nyasende	Member	3 rd December 2018 to date
4	Elias Ngere	Member	3 rd December 2018 to date

STATEMENT OF COMPLIANCE

The board of trustees confirms that the fund has throughout the FY2020/2021 complied with all statutory and regulatory requirements and that the fund has been managed in accordance with the principles of good corporate governance.

The fund conducted an external legal audit which confirmed that the institution had complied with all relevant laws, regulations and requirements.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

The trustees are responsible for reviewing the effectiveness of the fund's system of internal control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Standing Instructions

The fund has a Code of Ethics and Service Charter that is applicable to all employees. These have a number of standing instructions to employees of the fund designed to enhance internal control.

Organization Structure

A clear organizational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Training plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the fund can meet its future management requirements.

Strategic Plan

The business of the fund is determined by the strategic plan. The strategic plan sets out the objectives of the fund, and the annual targets to be met to attain those objectives. The strategic plan is evaluated annually to assess the achievement of those objectives. The board on an annual basis approves the work plan supported by the financial plan for the year. Progress against the plan is monitored on a quarterly basis.

Internal Control Framework

The fund continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an ongoing basis. A risk-based audit plan, which provides assurance over key business processes and operational and financial risks facing the fund, is approved by the audit and risk committee.

The audit and risk committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the board. Where weaknesses are identified, the committee ensures that management takes appropriate action. No significant failings or weaknesses were identified during the FY 2020/2021.

Risk Management

The fund has in place a risk management framework which guides the fund in identifying, assessing and managing the risks. The fund has developed a risk register which documents and prescribes mitigating measures of all the risks both external and internal facing the fund. The risk management framework and register are regularly reviewed to incorporate any emerging issues in the operating environment. The risk management is coordinated by the head of internal audit, who reviews all the risks in the fund and updates the risk register and ensures that all new and

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emerging risks are appropriately evaluated and any further actions identified. The identified risks are reported to the audit and risk committee to assist the board in the management of risks.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Management Team

The management team headed by the Fund Administrator implements the board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the board's objectives are achieved effectively and efficiently.

Auditor

The fund is audited by the Auditor-General.

7. MANAGEMENT DISCUSSION AND ANALYSIS

When SBM Bank took over the Management of the Kisii County Assembly Car Loan and Mortgage scheme it inherited three (3) bank accounts that had been opened by Chase Bank (IR) which was under Receivership. It consolidated them to one Account namely **Kisii County Assembly, Mortgage and Car Loan Fund a/c. Number 02509101001**. The Accounts held total deposits of Ksh. 290 Million.

The three (3) deposit accounts had balances as follows;

	ACOUNT NO.	DATE OF DEPOSIT	AMOUNT (KSH)	TOTAL BALANCE
1.	0252096101002	28/04/2014	30 Million	100 Million
		06/05/2014	70 Million	
2.	025209101003	01/07/2014	40 Million	90 Million
		24/09/2014	40 Million	
		31/10/2014	50 Million	
3.	0252096101001	27/03/2015	20 Million	60 Million
		08/02/2016	10 Million	
		07/05/2018	30 Million	
4.	025096101001	30/01/2019	25 Million	50 Million
		15/04/2019	25 Million	
	Total Deposit held in lien			340 Million

Note that Kshs. 260 million was held by Chase Bank limited as at the time it was put under receivership in April 2016. Only Kshs. 1 million could be withdrawn from each of the 3 accounts at that time. Therefore, Kshs. 257 Million was held under moratorium and according to SBM Bank 25% of this (Kshs. 64,250,000) is still held by Kenya Deposit Insurance Corporation (KDIC).

In the Financial Year ended June 30, 2020 the Assembly advanced Kshs. 3 million to one member who initially had not benefited because she had a pending election petition in court.

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This increased the total loans disbursement from Kshs. 348,670,000 as at June 2019 to Kshs. 351,670,000 as at June 2020.

In this FY 2020/20210 a total of Kshs. 112,185,756 loan recoveries were made raising the recoveries to Kshs. 295,028,588(**84%**). This leaves an outstanding loan balance of Kshs. 56,641,412(**16%**) as at June 30, 2021. The recovery process has been smooth and all loans are projected to have been recovered by May 2022.

8. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The quest for The Kisii County Assembly Car Loan and Mortgage Fund Management to initiate Corporate Social Responsibility with a positive impact to Society has been hampered by lack of Resources. According to the Signed MOU, all interest accruing out of the disbursed loans (Kshs. 4,758,954 in FY 2020/2021) is utilised by the Fund Administrator as administrative expenses. Discussions for review on utilization of 3% interest accruing from the disbursed loans and interest on idle funds are ongoing. The management is optimistic that the discussions will materialize in the first quarter of the next Financial Year and this shall necessitate revision of the Memorandum of Understanding accordingly

9. REPORT OF THE TRUSTEES

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

Principal activities

The principal activities of the Fund are to enable members of the County Assembly and Staff to access mortgages and car loans as may be prescribed by the Salaries and Remuneration Commission.

Results

The results of the Fund for the year ended June 30, 2021 are set out on pages 20-25.


Trustees

The members of the Board of Trustees who served during the year are shown on pages 2 and 3.

Auditors

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

By Order of the Board

Hon. Timothy Ogugu 

Member of the Board

Date: _____

10. 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 The Kisii County Assembly Members' Loan and Mortgage Fund Act, 2014, shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

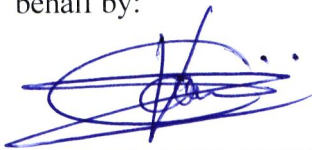
The Administrator of the County Public Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Administrator of the County Public Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and The Kisii County Assembly Members' Loan and Mortgage Fund Act, 2014. The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2021, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Administrator of the County Public Fund has assessed the Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Administrator to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

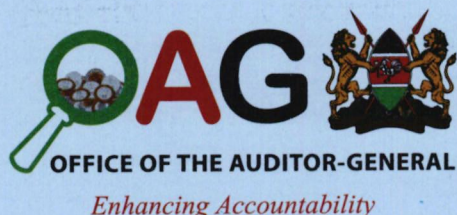
The Fund's financial statements were approved by the Board on 15/09/2021 and signed on its behalf by:



Ms. JacklineKinyanjui.
KisiiCounty AssemblyCar Loan and Mortgage Fund Administrator

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KISII COUNTY ASSEMBLY CAR LOAN AND MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kisii County Assembly Car Loan and Mortgage Fund set out on pages 20 to 50, which comprise of the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant

Report of the Auditor-General on Kisii County Assembly Car Loan and Mortgage Fund for the year ended 30 June, 2021

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

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kisii County Assembly Car Loan and Mortgage Fund as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Kisii County Assembly Member's Loan and Mortgage Fund Act, 2014.

Basis for Qualified Opinion

Unconfirmed Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.141,358,588 as disclosed in Note 11 to the financial statements. The balance includes an amount of Kshs.64,250,000 claimed to have been transferred from Chase Bank to Kenya Deposit Insurance Corporation by the Central Bank of Kenya. However, the amount was not supported by a credit advice at the time of transfer.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kisii County Assembly Car Loan and Mortgage Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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 processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal 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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to 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 non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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

I communicate with 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 the 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

02 September, 2022

12. FINANCIAL STATEMENTS

**12.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED
 30TH JUNE 2021**

	Note	FY2020/2021	FY2019/2020
		KShs	KShs
Revenue from non-exchange transactions			
Public contributions and donations	1		
Transfers from the County Government	2		
Fines, penalties and other levies	3		
Revenue from exchange transactions			
Interest income	4	4,758,954	6,415,715
Other income	5		
Total revenue		4,758,954	6,415,715
Expenses			
Fund administration expenses	6	4,758,954	6,415,715
General expenses	8		
Finance costs	9		
Total expenses		4,758,954	6,415,715
Other gains/(losses)			
Gain/(loss) on disposal of assets	10		
Surplus/(deficit) for the period			

The notes set out on pages 33 to 44 form an integral part of these Financial Statements

KISII COUNTY ASSEMBLY - CAR LOAN AND MORTGAGE FUND
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12.2. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2021

	Note	FY2020/2021	FY2019/2020
		KShs	KShs
Assets			
Current assets			
Cash and cash equivalents	11	141,358,588	171,172,832
Current portion of long term receivables from exchange transactions	12		
Prepayments	13		
Inventories	14		
Non-current assets			
Property, plant and equipment	15		
Intangible assets	16		
Long term receivables from exchange transactions	12	56,641,412	168,827,168
Total assets		198,000,000	340,000,000
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	17		
Provisions	18		
Current portion of borrowings	19		
Employee benefit obligations	20		
Non-current liabilities			
Non-current employee benefit obligation	20		
Long term portion of borrowings	19		
Total liabilities			
Net assets			
Revolving Fund		198,000,000	340,000,000
Reserves			
Accumulated surplus			
Total equity		198,000,000	340,000,000

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 15/09/ 2021 and signed by:

KISII COUNTY ASSEMBLY - CAR LOAN AND MORTGAGE FUND
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Administrator of the Fund
Name: Ms. Jackline Kinyanjui



Fund Accountant
Name: Dennis Aamba
ICPAK Member Number: 17821

KISII COUNTY ASSEMBLY - CAR LOAN AND MORTGAGE FUND**Reports and Financial Statements****For the year ended June 30, 2021****12.3. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2021**

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2019	340,000,000			340,000,000
Surplus/(deficit) for the period				
Funds received during the year				
Revaluation gain				
Balance as at 30 June 2020	340,000,000			
Balance as at 1 July 2020	340,000,000			340,000,000
Surplus/(deficit) for the period	(142,000,000)			(142,000,000)
Funds received during the year				
Revaluation gain				
Balance as at 30 June 2021	198,000,000			198,000,000

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12.4. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE 2021

	Note	FY2020/2021	FY2019/2020
		KShs	KShs
Cashflows from operating activities			
Receipts			
Public contributions and donations			
Transfers from the County Government			
Interest received		4,758,954	6,415,715
Receipts from other operating activities			
Total Receipts		4,758,954	6,415,715
Payments			
Fund administration expenses		4,758,954	6,415,715
General expenses			
Finance cost			
Total Payments		4,758,954	6,415,715
Net cash flows from operating activities	21		
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		112,185,756	83,267,566
Loan disbursements paid out (Car Grant)		(142,000,000)	(3,000,000)
Net cash flows used in investing activities		(29,814,244)	80,267,566
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		(29,814,244)	80,267,566
Cash and cash equivalents at 1 JULY 2020	15	171,172,832	90,905,266
Cash and cash equivalents at 30 JUNE 2021	15	141,358,588	171,172,832

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12.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2021

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilization
	2020/2021	2020/2021	2020/2021	2020/2021	2020/2021	2020/2021
Revenue	KShs	KShs	KShs	KShs	KShs	
Public contributions and donations	0	0	0	0	0	
Transfers from County Govt.	0	0	0	0	0	
Interest income	5,064,815	0	5,064,815	4,758,954	305,861	94%
Other income						
Total income	5,064,815	0	5,064,815	4,758,954	305,861	94%
Expenses						
Fund administration expenses	5,064,815	0	5,064,815	4,758,954	305,861	94%
General expenses						
Finance cost						
Total expenditure	5,064,815	0	5,064,815	4,758,954	305,861	94%
Surplus for the period	0	0	0	0	0	0

12.6. 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 2018

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 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 2018

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 entity did not early – adopt any new or amended standards in year 2018.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

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

ii) Revenue from exchange transactions

Interest income

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

4. Budget information

The original budget for FY 2020/2021 was approved by the County Assembly on 23rd June 2020. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded no additional appropriations in the 2020-2021 budget following the governing body's approval.

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

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 12.5 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 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 an 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 cashflows 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 Fund Administrator and the Fund Accountant.

16. Cash and cash equivalents

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

17. Comparative figures

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

18. Events after the reporting period

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

19. Ultimate and Holding Entity

The entity is a County Public Fund established by Section 167 of the Public Finance Management (PFM) Act 2012. Its ultimate parent is the Kisii County Assembly.

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. Additional disclosure of these estimates of provisions is included in Note 18.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

22. Financial risk management

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

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

a) Credit risk

The Fund has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

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

	Total amount KShs	Fully performing KShs	Past due KShs	Impaired KShs
At 30 June 2021				
Receivables from exchange transactions	56,641,412			
Receivables from non-exchange transactions				
Bank balances	141,358,588			
Total	198,000,000			
At 30 June 2020				
Receivables from exchange transactions	168,827,168			
Receivables from non-exchange transactions				
Bank balances	171,172,832			
Total	340,000,000			

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The entity has significant concentration of credit risk on amounts due from customers.

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

b) Liquidity risk management

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

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

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	KShs	KShs	KShs	KShs
At 30 June 2021				
Trade payables				
Current portion of borrowings				
Provisions				
Employee benefit obligation				
Total				
At 30 June 2020				
Trade payables				
Current portion of borrowings				
Provisions				
Employee benefit obligation				
Total				

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Market risk

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

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

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

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

i. Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

		Other currencies	Total
	KShs	KShs	KShs
At 30 June 2021			
Financial assets (investments, cash ,debtors)			
Liabilities			
Trade and other payables			
Borrowings			
Net foreign currency asset/(liability)			

The Fund manages foreign exchange risk form future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency sensitivity analysis

The following table demonstrates the effect on the Fund's statement of financial performance on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on surplus/ deficit	Effect on equity
	KShs	KShs	KShs
2018			
Euro	10%		
USD	10%		
2017			
Euro	10%		
USD	10%		

ii. Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company'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.

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 entity capital structure comprises of the following funds:

	2021	2020
	KShs	KShs
Revaluation reserve		
Revolving fund		
Accumulated surplus		
Total funds		
Total borrowings		
Less: cash and bank balances		
Net debt/(excess cash and cash equivalents)		
Gearing	0%	0%

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12.7. NOTES TO THE FINANCIAL STATEMENTS

1. Public contributions and donations

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Donation from development partners		
Contributions from the public		
Total		

These refer to donations received from domestic and foreign donors. The funds include donations received directly by the County Government and those that are received by the National Government first and disbursed to the County.

2. Transfers from County Government

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Transfers from County Govt. – operations		
Payments by County on behalf of the entity		
Total		

3. Fines, penalties and other levies

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Late payment penalties		
Fines		
Total		

4. Interest income

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Interest income from loans (mortgage and car loans)	4,758,954	6,415,715
Total interest income	4,758,954	6,415,715

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5. Other income

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Insurance recoveries		
Income from sale of tender documents		
Miscellaneous income		
Total other income		

6. Fund administration expenses

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Staff costs (Note 7)		
Loan processing costs		
Professional services costs (Admin.Costs)	4,758,954	6,415,715
Total	4,758,954	6,415,715

7. Staff costs

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Salaries and wages		
Staff gratuity		
Staff training expenses		
Social security contribution		
Other staff costs		
Total		

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. General expenses

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Consumables		
Electricity and water expenses		
Fuel and oil costs		
Insurance costs		
Postage		
Printing and stationery		
Rental costs		
Security costs		
Telecommunication		
Hospitality		
Depreciation and amortization costs		
Other expenses		
Total		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Finance costs

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Interest on Bankoverdrafts		
Interest on loans from banks (SBM)	4,758,954	6,415,715
Total	4,758,954	6,415,715

10. Gain on disposal of assets

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Property, plant and equipment		
Intangible assets		
Total		

11. Cash and cash equivalents

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Fixed deposits account	77,108,588	171,172,832
On – call deposits		
Current account		
Kenya Depository Insurance Cooperation (KDIC)	64,250,000	
Total cash and cash equivalents	141,358,588	171,172,832

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

		FY2020/20 21	FY2019/20 20
Financial institution	Account number	KShs	KShs
a) Fixed deposits account			
SBM Bank,	0252096101001	77,108,588	171,172,832
Sub- total		77,108,588	171,172,832
b) On - call deposits			
Kenya Commercial bank			
Equity Bank - etc			
Sub- total			
c) Current account			
Kenya Commercial bank			
Bank B			
Sub- total			
d) Others(specify)			
Kenya Depository Insurance Cooperation (KDIC)		64,250,000	
Cash in hand			
M Pesa			
Sub- total			
Grand total		141,358,588	171,172,832

12. Receivables from exchange transactions

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Current Receivables		
Interest receivable		
Current loan repayments due		
Otherexchangedebtors		
Less:impairmentallowance		
Total Current receivables		
Non-Current receivables		
Long term loan repayments due	56,641,412	168,827,168
Total Non-current receivables		

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Totalreceivables from exchange transactions		
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Prepayments

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Prepaid rent		
Prepaid insurance		
Prepaid electricity costs		
Total		

14. Inventories

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Consumable stores		
Spare parts and meters		
Catering		
Total inventories at the lower of cost and net realizable value		

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15. 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					
Disposals					
Transfers/adjustments					
At 30th June 2020					
At 1st July 2020					
Additions					
Disposals					
Transfer/adjustments					
At 30th June 2021					
Depreciation and impairment					
At 1st July 2016					
Depreciation					
Impairment					
At 30th June 2020					
At 1st July 2020					
Depreciation					
Disposals					
Impairment					
Transfer/adjustment					
At 30th June 2021					
Net book values					
At 30th June 2020					
At 30th June 2021					

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16. Intangible assets-software

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Cost		
At beginning of the year		
Additions		
At end of the year		
Amortization and impairment		
At beginning of the year		
Amortization		
At end of the year		
Impairment loss		
At end of the year		
NBV		

17. Trade and other payables from exchange transactions

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Trade payables		
Refundable deposits		
Accrued expenses		
Other payables		
Total trade and other payables		

18. Provisions

Description	Leave provision	Bonus provision	Other provision	Total
	KShs	KShs	KShs	KShs
Balance at the beginning of the year				
Additional Provisions				
Provision utilised				
Change due to discount and time value for money				
Transfers from non-current provisions				
Total provisions				

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Borrowings

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Balance at beginning of the period		
External borrowings during the year		
Domestic borrowings during the year		
Repayments of external borrowings during the period		
Repayments of domestics borrowings during the period		
Balance at end of the period		

The table below shows the classification of borrowings into external and domestic borrowings:

	FY2020/2021	FY2019/2020
	KShs	KShs
External Borrowings		
Dollar denominated loan from ABC Bank		
Sterling Pound denominated loan from XYZ Bank		
Euro denominated loan from Dfid		
Domestic Borrowings		
Kenya Shilling loan from KCB		
Kenya Shilling loan from Barclays Bank		
Kenya Shilling loan from Consolidated Bank		
Borrowings from other government institutions		
Total balance at end of the year		

The table below shows the classification of borrowings long-term and current borrowings:

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Short term borrowings(current portion)		
Long term borrowings		
Total		

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Employee benefit obligations

Description	Defined benefit plan	Post employment medical benefits	Other Provisions	Total
	KShs	KShs	KShs	KShs
Current benefit obligation				
Non-current benefit obligation				
Totalemployee benefits obligation				

21. Cash generated from operations

	FY2020/2021	FY2019/2020
	KShs	KShs
Surplus for the year before tax		
Adjusted for:		
Depreciation		
Gains/ losses on disposal of assets		
Interest income		
Finance cost		
Working Capital adjustments		
Decrease in inventory		
(Increase)/Decrease in receivables		
Increase in payables		
Net cash flow from operating activities		

22. Related party balances

a) Nature of related party relationships

Entities and other parties related to the Fund include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members. The fund/scheme is related to the following entities:

- a) Kisii County Assembly;
- b) Board of Trustees; and
- c) Key management personnel.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Related party transactions

	FY2020/2021	FY2019/2020
	KShs	KShs
Transfers from related parties'		
Transfers to related parties		

c) Key management remuneration

	FY2020/2021	FY2019/2020
	KShs	KShs
Board of Trustees		
Key Management Compensation		
Total		

d) Due from related parties

	FY2020/2021	FY2019/2020
	KShs	KShs
Due from parent Ministry		
Due from County Government		
Total		

e) Due to related parties

	FY2020/2021	FY2019/2020
	KShs	KShs
Due to parent Ministry		
Due to County Government		
Due to Key management personnel		
Total		

23. Contingent assets and contingent liabilities

Contingent liabilities	FY2020/2021	FY2019/2020
	KShs	KShs
Court case against the Fund		
Bank guarantees		
Total		

(Give details)

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13. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	Cash and Cash Equivalent	Amount of Kshs.275,750,000 held at SBM Bank A/c no. 0252096101001 represents capital amount balance. The net Cash and Cash equivalents was reconciled as Kshs. 171,172,832	Dennis Aamba Fund Accountant	Resolved	
2.	Loans advanced to members	Kshs, 3,000,000 advanced to one member was supported by LR No. Mavoko Town Block 3/80584	Dennis Aamba Fund Accountant	Resolved	