REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KISII COUNTY ASSEMBLY CAR LOAN AND MORTGAGE FUND

FOR THE YEAR ENDED 30 JUNE, 2020

KISII COUNTY ASSEMBLY

KISII COUNTY ASSEMBLY CAR LOAN & MORGAGE FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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

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.

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. Risper Onguti	MCA	Member
4	Hon. Eric Janganya	MCA	Member
5	Dr. Carren Nyangweso	CASB Member	Member

6	Mr. James Nyaoga	Clerk	Secretary
7	Mr. Moses Ratemo	Senior Accountant	Member
8	Ms. Jane Kigo	Senior Hansard and Communication Officer	Member
9	Mr. Abel Nyamweya	Liason Officer	Member

d) Key Management

Ref	Name	Position
1	Ms. Jackline Kinyanjui	Fund Administrator (Branch Manager SBM Bank)
2	Mr. 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) Fund Bankers

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 (or any other corporate governance body for the Fund)

Name	Details of qualifications and experience
1. Insert each Trustee's passport-size photo and name	Provide a concise description of each Trustee's date of birth, key academic and professional qualifications and work experience. Indicate whether the trustee is independent or an executive director and which committee of the Board the trustee chairs where applicable.
2. Trustee 2	
3. Trustee 3	
4. Trustee 4	
5. Etc.	

3. STATEMENT OF PERFORMANCE AGAINST COUNTY ENTITY'S PREDETERMINED OBJECTIVES

Introduction

Section 164 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each County Government entity Government entities in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the county government entity's performance against predetermined objectives.

The Kisii County Assembly Car Loan and Mortgage Fund Management was not able to programme and budget for any development activities in the FY 2019/2020. This is because 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.

4. MANAGEMENT TEAM

Name	Details of qualifications and experience
1. Ms. Jackline Kinyanjui	Fund Administrator (Branch Manager SBM Bank)
2. Mr. Dennis Aaamba	Fund Accountant

5. 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 upto 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 2020 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.

Signed: ________________________-

Name: TIMOTHY OGUGU

6. 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.

On our part we ensured that all loans were insured. Recoveries have been consistent and up to date.

Signed: ______________________-

Name: JACKLINE KINYANJUI

SBM Bank.

SBM BANK (KENYA) LIMITED KISII KB

7. CORPORATE GOVERNANCE STATEMENT

The Salaries and Remuneration Commission pursuant to the Circular Ref No. SRC/ADM/CIR/1/13 Vol. III (128) on "Car loan and Mortgage Scheme for State Officers and other Public Officers of Government of Kenya'' (SRC Guidelines) enabled state officers and other public officers to benefit from Government funded loans to purchase cars and access mortgage facilities. Pursuant to the above Circular, the County Assembly entered into an Agreement with Chase Bank Limited in April 2014, to facilitate the administration of the Scheme Fund by the Bank. Under the agreement, the County Assembly would provide a pool of Funds to the Bank (Scheme Fund) and the bank would assist the County Assembly in disbursing loans from the bank to qualifying beneficiaries subject to qualification criterion.

Initially the County Assembly could not afford to raise enough seed capital that would have allowed all the 71 members of the County Assembly and the speaker enjoy a maximum loan facility of Kshs. 5 Million each at once. This required the Assembly to instantly source for Kshs. 365 Million at the time. Nevertheless, the Assembly managed to raise Kshs. 30 Million on 28th April 2014 to start off the operations of the Fund. It was agreed therefore, that the Bank disburses loans to members on a First Come First Served basis as the Assembly sought to grow the Fund gradually over time. This was done in instalments of Kshs. 70 Million in May 2014, Kshs. 40 Million in July 2014, Kshs. 40 Million in September 2014, Kshs. 50 Million in October 2014, Kshs. 20 Million in March 2015, Kshs. 10 Million in February 2016, Kshs.30 Million in May 2018, Kshs. 25 Million in January 2019 and Kshs. 25 Million in April 2019.

Unfortunately, on 7th April, 2016 Chase Bank was put under receivership by Central Bank of Kenya. By this time our seed capital had grown to Kshs 260Million. On 27th April, 2016 the Central Bank of Kenya allowed Chase Bank to Re-open as Chase Bank in receivership (IR), with full support of Kenya Deposits Insurance Corporation (KDIC) and Kenya Commercial Bank (K) Limited. It is worth noting that during this period all Members of the County Assembly had acquired loan facilities and the fund managers were labouring to ensure that the recovery process was uninterruptable. The loans given out were insured. When the first term of the Assembly lapsed in August 2017 all loans of Kshs. 281,313,391 given out to Members had been successfully recovered by May 2017.

The County Assembly renewed the Memorandum of Understanding (MOU) with Chase Bank in Receivership which took effect on 6th December 2017. This was done under very difficult circumstances because;

- Chase Bank (K) Ltd was in Receivership and our seedcapitalof Kshs. 260 Million was held under Moratorium. Customers were allowed to access only Kshs. 1 Million from their Account.

- The County Assembly could not manage to raise instant seed money to start off a new scheme.

- New Members of the County Assembly had been elected in August 2017 and they urgently needed funding.The fact that loan repayment is pegged on a term (5 years),any time lost was to members' disadvantage. They therefore, exerted so much pressure on the County Assembly Service Board to expeditiously look for a solution.

Several meetings and lengthy deliberations involving H.E The Governor of Kisii County, The County Assembly Service Board, Members of the House Leadership,and Representatives from Central Bank of Kenya (CBK), Kenya Commercial Bank (KCB), and Chase Bank (IR) were held in a bid to seek a sustainable solution to this problem. Ultimately, the Central Bank of Kenya (CBK) agreed to support Chase Bank (IR) to avail funds to the tune of Kshs. 366 Million for disbursement to the Members of the County Assembly. This led to the signing of the new MOU.

The Governor, Central Bank of Kenya through Gazette notice number 6833 of 6th July, 2018 notified the public of the approval by the Cabinet Secretary for National treasury and planning, and Kenya Deposit Insurance Corporation (Receiver manager of Chase bank (K) Ltd (IR)) of the transfer of certain assets and certain liabilities to State Bank of Mauritius (SBM). The acquisition, transfer and assumption took effect on the 17th August, 2018. In this regard, all assets and liabilities granted to Members of the County Assembly under the ''Principal Agreement'' between Chase Bank (IR) and Kisii County Assembly were transferred to SBM Bank Kenya and continued to have the same effect and force as was the case with Chase Bank (IR).

8. 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	
		06/05/2014	70 Million	100 Million
2.	025209101003	01/07/2014	40 Million	
		24/09/2014	40 Million	
		31/10/2014	50 Million	90 Million
3.	0252096101001	27/03/2015	20 Million	
		08/02/2016	10 Million	
		07/05/2018	30 Million	60 Million
	Total Deposit held in lien			**290 Million**

Kshs. 50 Million was later added to make the Total Deposits as Kshs. 340 Million (Kshs. 25 million deposited on 30/01/2019 and another deposit of Kshs. 25 million on 15/04/2019).

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. This increased the total loans disbursement from Kshs. 348,670,000 as at June 2019 to Kshs. 351,670,000 as at June 2020. A total of Kshs. 83,267,566 loan recoveries were made during the year under review raising the recoveries to Kshs. 182,842,832**(54%)** to date.This leavesan outstanding loan balance of Kshs. 168,827,168**(46%)** as at June 30, 2020.The recovery process has been smooth and all loans are projected to have been recovered by May 2022.

9. 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. 6,415,715 in FY 2019/2020) 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.

10. REPORT OF THE TRUSTEES

The Trustees submit their report together with the audited financial statements for the year ended June 30, 2020 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, 2020 are set out on pages 18-23.

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

Member of the Board

Date: 21/9/2020

11. 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, 2020. 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, 2020, 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 21st September 2020 and signed on its behalf by:

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Administrator of the County Public Fund

REPUBLIC OF KENYA

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Website: www.oagkenya.go.ke

OFFICE OF THE AUDITOR-GENERAL

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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, 2020

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 18 to 52 , 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 Kisii County Assembly Car Loan and Mortgage Fund as at 30 June, 2020, 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

1. Inaccuracies in the financial statements

The statements of financial position as at 30 June, 2020 reflects cash and cash equivalents and long-term receivables from exchange transactions of Kshs.171,172,832 and Kshs.168,827,168 respectively and refers to Notes 10 and 11 respectively. However, the Notes referred to relate to Gain/(loss) on disposal of assets and Cash and cash equivalents respectively.

In the circumstances, the accuracy of the statement of financial position as at 30 June, 2020 could not be confirmed.

2. Cash and Cash Equivalent

The statement of financial position as at 30 June, 2020 and as disclosed in note 10 to the financial statement reflects cash and cash equivalents balance of Kshs.171,172,832 which includes an amount of Kshs.64,250,000 and which was explained as having been transferred from Chase Bank to Kenya Deposit Insurance Corporation by the Central Bank of Kenya. This balance has not been by supported by a certificate of bank balance as at 30 June, 2020.

Consequently, accuracy and validity of cash and cash equivalents balance of Kshs.171,172,832 as at 30 June, 2020 could not be confirmed.

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects interest budget of Kshs.10,200,000 and Kshs.6,415,715 as actual on comparable basis leading to under receipt of Kshs.3,784,285. Similarly, the statement reflects expenditure budget of Kshs.10,200,000 and an actual expenditure of Kshs.6,415,715 resulting overall under expenditure Kshs.3,784,285. The budget under realization and under expenditure may be equivalent to services budgeted for but not delivered to the residents of Kisii County.

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, except for the matters described in the Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else 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

1.0 Long Term Receivable from Exchange Transactions

1.1 Loans Advanced to Members

The statement of financial position as at 30 June, 2020 and as disclosed under Note 11 to the financial statements reflects long term receivable from exchange transactions of Kshs.168,827,168 and which include Kshs.3,000,000 applied and paid to one(1) member of County Assembly (MCA). However, the relevant documents such as approved copies of the designs of the proposed structure, bills of quantities, and official search of the titles to confirm the land ownership were not provided for audit review, contrary to Section 10 of the Kisii County Assembly members loan and mortgage fund ,2014 which states that the security for the loan or mortgage grant shall be the applicant certificate of title-log book, or title deed, or lease certificate or deed of guarantee.

Consequently, the regularity, validity and recoverability of the mortgage loan advanced to the member of Kshs.3,000,000 as at 30 June, 2020 could not be ascertained.

1.2 . Failure to Charge Securities Offered for the Loans

As disclosed under Note 11 to the financial statements, the statement of financial position reflects long term receivable from exchange transactions of Kshs.168,827,168. Review of documents revealed that the Fund did not have a charge register in place and the securities provided including the logbooks and title deeds were not charged for the loans contrary to Section 10 of the Kisii County Assembly members loan and mortgage fund, 2014 which states that the security for the loan or mortgage grant shall be the applicant certificate of the title-log book, or title deed, or lease certificate or deed of guarantee.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing else 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 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 the 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 ability of the Fund to sustain its services , disclosing as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish 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 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 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 Fund's policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 ability of the Fund 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 sustaining 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 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

11 February, 2022

13. FINANCIAL STATEMENTS

13.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30thJUNE 2020

	Note	2019/2020	2018/2019
		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	6,415,715	8,293,036
Other income	5		
Total revenue		**6,415,715**	**8,293,036**
Expenses			
Fund administration expenses	6	6,415,715	8,293,036
General expenses	7		
Finance costs	8		
Total expenses		**6,415,715**	**8,293,036**
Other gains/losses			
Gain/loss on disposal of assets	9		
Surplus/(deficit) for the period		**0**	**0**

The notes set out on pages 24 to 52 form an integral part of these Financial Statements

13.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	2019/2020	2018/2019
		KShs	KShs
Assets			
Current assets			
Cash and cash equivalents	10	171,172,832	90,905,266
Current portion of long- term Receivables from exchange transactions	11		
Prepayments	12		
Inventories	13		
Non-current assets			
Property, plant and equipment	14		
Intangible assets	15		
Long term receivables from exchange transactions	11	168,827,168	249,094,734
Total assets		**340,000,000**	**340,000,000**
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	16		
Provisions	17		
Current portion of borrowings	18		
Employee benefit obligations	19		
Non-current liabilities			
Non-current employee benefit obligation	19		
Long term portion of borrowings	18		
Total liabilities			
Net assets			
Revolving Fund		340,000,000	340,000,000
Reserves			
Accumulated surplus			
Total net assets and liabilities		**340,000,000**	**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 21st September 2020and signed by:

Administrator of the Fund
Name: JACKLINE KINYANJUI

Fund Accountant
Name: DENNIS AAMBA
ICPAK Member Number:
17821

13.3. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2020

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2018	290,000,000			290,000,000
Surplus/(deficit) for the period				
Funds received during the year	50,000,000			50,000,000
Revaluation gain				
Balanceasat30 June 2019	**340,000,000**			**340,000,000**
Balance as at 1 July 2019	**340,000,000**			**340,000,000**
Surplus/(deficit)for the period				
Funds received during the year				
Revaluation gain				
Balanceasat30 June 2020	**340,000,000**	**0**	**0**	**340,000,000**

13.4. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019/2020	2018/2019
		KShs	KShs
Cash flows from operating activities			
Receipts			
Public contributions and donations		6,415,715	8,293,036
Transfers from the County Government	4		
Interest received			
Receipts from other operating activities			
Total Receipts		**6,415,715**	**8,293,036**
Payments			
Fund administration expenses	6	6,415,715	8,293,036
General expenses			
Finance cost			
Adjusted for:			
Decrease/(Increase) in Accounts receivable: (outstanding imprest)	21		
Increase/(Decrease) in Accounts Payable: (deposits and retention)	22		
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		83,267,566	51,882,199
Loan disbursements paid out		-3,000,000	-15,050,000
Net cash flows used in investing activities		**80,267,566**	**36,832,199**
Cash flows from financing activities			
Proceeds from revolving fund receipts			50,000,000
Additional borrowings			
Re payment of borrowings			-43,620,000
Net cash flows used in financing activities			**6,380,000**

Net increase/(decrease)incashandcash equivalents		**80,267,566**	**67,058,732**
Cashandcashequivalentsat1JULY	15	90,905,266	23,846,532
Cashandcashequivalentsat30 JUNE	15	**171,172,832**	**90,905,266**

(IPSAS 2 allows an entity to present the cash flow statement using the direct or indirect method but encourages the direct method. PSASB also recommends the use of direct method of cash flow preparation. The above illustration assumes direct method)

13.5. 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**	
Public contributions and donations						
Transfers from County Govt.						
Interest income (3%)	10,200,000		10,200,000	6,415,715	3,784,285	63%
Other income						
Total income	**10,200,000**		**10,200,000**	**6,415,715**	**3,784,285**	**63%**
Expenses						
Fund administration expenses	10,200,000		10,200,000	6,415,715	3,784,285	63%
General expenses						
Finance cost						
Total expenditure	**10,200,000**		**10,200,000**	**6,415,715**	**3,784,285**	**63%**
Surplus for the period						

13.6. 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 2020

Standard	Impact
IPSAS 40: Public Sector Combinations	**Applicable: 1st January 2019** The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations. *(State the impact of the standard to the entity if relevant)*

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	**Applicable: 1stJanuary 2022:** The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cashflows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;

Standard	**Effective date and impact:**
	• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. *(State the impact of the standard to the entity if relevant)*
IPSAS 42: Social Benefits	**Applicable: 1st January 2022** The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess: (a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows. *(State the impact of the standard to the entity if relevant)*
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	**Applicable: 1st January 2022:** a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
Other Improvements to IPSAS	**Applicable: 1st January 2021:** a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and

Standard	Effective date and impact:
	Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved **c)** IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets. d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard
	IPSAS 40, Public Sector Combinations. Amendments to include the effective date paragraph which were inadvertently omitted when IPSAS 40 was issued

c) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020.

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 2019/2020was approved by the County Assembly on 27th June, 2020. Subsequent revisions or additional appropriations were not 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 on the FY 2019/2020budget.

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 13.5 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 cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

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

Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

9. Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

10. Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements *.Entity to state the reserves maintained and appropriate policies adopted.*

11. Changes in accounting policies and estimates

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

12. Employee benefits– Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

13. Foreign currency transactions

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Borrowing costs

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

15. Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

16. Cash and cash equivalents

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

17. Comparative figures

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

18. Events after the reporting period

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

19. Ultimate and Holding Entity

The entity is a County Public Fund established by Act The Kisii County Assembly Members' Loan and Mortgage Fund Act, 2014, under the Ministry of Devolution. Its ultimate parent is the County Government of Kenya.

20. Currency

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21. Significant judgments and sources of estimation uncertainty

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

State all judgements, estimates and assumptions made :e.g

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

Useful lives and residual values

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

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

Provisions

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

22. Financial risk management

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

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

a) Credit risk

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

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

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

	Total amount KShs	Fully performing KShs	Past due KShs	Impaired KShs
At 30 June 2020				
Receivables from exchange transactions	168,827,168			
Receivables from non-exchange transactions				
Bank balances	171,172,832			
Total	**340,000,000**			
At 30 June 2019				
Receivables from exchange transactions	249,094734			
Receivables from non exchange transactions				
Bank balances	90,905,266			
Total	**340,000,000**			

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The entity has significant concentration of credit risk on amounts due fromxxxx

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 2020				
Trade payables				
Current portion of borrowings				
Provisions				
Employee benefit obligation				
Total				
At 30 June 2019				
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 2020			
Financial assets			
Investments			
Cash			
Debtors/ receivables			
Liabilities			
Trade and other payables			
Borrowings			
Net foreign currency asset/(liability)			

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
2020			
Euro	10%		
USD	10%		
2019			
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 entity'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.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 6,415,715 (2020: KShs6,415,715). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of nil (2019–nil)

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:

	2019/2020	2018/2019
	KShs	KShs
Revaluation reserve		
Revolving fund	340,000,000	340,000,000
Accumulated surplus		
Total funds	**340,000,000**	**340,000,000**
Total borrowings		
Less: cash and bank balances	(171,172,832)	
Net debt/(excess cash and cash equivalents)	168,796,168	
Gearing		

13.7. NOTES TO THE FINANCIAL STATEMENTS

1. Public contributions and donations

Description	**2019/2020**	**2018/2019**
	KShs	**KShs**
Donation from development partners		
Contributions from the public		
Total		

2. Transfers from County Government

Description	**2019/2020**	**2018/2019**
	KShs	**KShs**
Transfers from County Govt. – operations		
Payments by County on behalf of the entity		
Total		

3. Fines, penalties and other levies

Description	**2019/2020**	**2018/2019**
	KShs	**KShs**
Late payment penalties		
Fines		
Total		

4. Interest income

Description	**2019/2020**	**2018/2019**
	KShs	**KShs**
Interest income from Mortgage loans	4,678,622	6,053,916
Interest income from car loans	1,737,093	2,239,120
Interest income from investments		
Interest income on bank deposits		
Total interest income	**6,415,715**	**8,293,036**

5. Other income

Description	**2019/2020**	**2018/2019**
	KShs	**KShs**
Insurance recoveries		

Income from sale of tender documents		
Miscellaneous income		
Total other income		

6. Fund administration expenses

Description	**2019/2020**	**2018/2019**
	KShs	**KShs**
Staff costs (Note 7)		
Loan processing costs		
Professional services costs		
Administration fees	6,415,715	8,293,036
Total	**6,415,715**	**8,293,036**

7. Staff costs

Description	**2019/2020**	**2018/2019**
	KShs	**KShs**
Salaries and wages		
Staff gratuity		
Staff training expenses		
Social security contribution		
Other staff costs		
Total		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. General expenses

Description	2019/2020	2018/2019
	KShs	KShs
Consumables		
Electricity and water expenses		
Fuel and oil costs		
Insurance costs		
Postage		
Printing and stationery		
Rental costs		
Security costs		
Telecommunication		
Bank Charges		
Hospitality		
Depreciation and amortization costs		
Other expenses		
Total		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Finance costs

Description	2019/2020	2018/2019
	KShs	KShs
Interest on Bank overdrafts		
Interest on loans from banks		
Total		

10. Gain/(loss) on disposal of assets

Description	2019/2020	2018/2019
	KShs	KShs
Property, plant and equipment		
Intangible assets		
Total		

11. Cash and cash equivalents

Description	2019/2020	2018/2019
	KShs	KShs
Car loan account		
County mortgage account		
Fixed deposits account	171,172,832	90,905,266
On – call deposits		
Current account		
Others		
Total cash and cash equivalents	**171,172,832**	**90,905,266**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

		2019/2020	2018/2019
Financial institution	**Account number**	**KShs**	**KShs**
a) **Fixed deposits account**			
SBM BANK		171,172,832	90,905,266
Sub- total			
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)**			
Cash in transit			
Cash in hand			
M Pesa			
Sub- total			
Grand total		**171,172,832**	**90,905,266**

12. Receivables from exchange transactions

Description	**2019/2020**	**2018/2019**
	KShs	**KShs**
Current Receivables		
Interest receivable		
Current loan repayments due		
Other exchange debtors		
Less: impairment allowance		
Total Current receivables		
Non-Current receivables		
Long term loan repayments due	168,827,168	249,094,734
Total Non- current receivables	**168,827,168**	**249,094,734**
Total receivables from exchange transactions	**168,827,168**	**249,094,734**

Additional disclosure on interest receivable

Description	**2019/2020**	**2018/2019**
	KShs	**KShs**
Interest receivable		
Interest receivable from current portion of long-term loans of previous years		
Accrued interest receivable from of long-term loans of previous years		
Interest receivable from current portion of long-term loans issued in the current year		
Current loan repayments due		
Current portion of long-term loans from previous years		
Accrued principal from long-terms loans from previous periods		
Current portion of long-term loans issued in the current year		

13. Revenue from Non-Exchange transaction

	KShs	**KShs**
Description	**2019/2020**	**2018/2019**
	KShs	**KShs**
Transfer to County Executive		
Transfer to Fund		
Total receivables from non-exchange transactions		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Prepayments

Description	2019/2020	2018/2019
	KShs	KShs
Prepaid rent		
Prepaid insurance		
Prepaid electricity costs		
Other prepayments(specify)		
Total		

15. Inventories

Description	2019/2020	2018/2019
	KShs	KShs
Consumable stores		
Spare parts and meters		
Catering		
Other inventories(specify)		
Total inventories at the lower of cost and net realizable value		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. 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 2018					
Additions					
Disposals					
Transfers/adjustments					
At 30th June 2019					
At 1st July 2019					
Additions					
Disposals					
Transfer/adjustments					
At 30th June 2020					
Depreciation and impairment					
At 1st July 2018					
Depreciation					
Impairment					
At 30th June 2019					
At 1st July 2019					
Depreciation					
Disposals					
Impairment					
Transfer/adjustment					
At 30th June 2020					
Net book values					
At 30th June 2019					
At 30th June2020					

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Intangible assets-software

Description	2019/2020	2018/2019
	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		

18. Trade and other payables from exchange transactions

Description	2019/2020	2018/2019
	KShs	KShs
Tradepayables		
Refundable deposits		
Accrued expenses		
Otherpayables		
Totaltradeandotherpayables		

19. Provisions

Description	Leave provision	Bonus provision	Other provision	Total
	KShs	KShs	KShs	KShs
Balance at the beginning of the year(1.07.2019)				
Additional Provisions				
Provision utilised				
Change due to discount and time value for money				
Transfers from non -current provisions				
Balance at the end of the year (30.06.2020)				

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Borrowings

Description	2019/2020	2018/2019
	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		

	2019/2020	2018/2019
	KShs	KShs
External Borrowings		
Dollar denominated loan from 'xxx organization'		
Sterling Pound denominated loan from 'organization'		
Euro denominated loan from organization'		
Domestic Borrowings		
Kenya Shilling loan from SBM Bank Ltd		
Kenya Shilling loan from Barclays Bank		
Kenya Shilling loan from Consolidated Bank		
Borrowings from other government institutions		
Total balance at end of the year		
Description	**2019/2020**	**2018/2019**
	KShs	**KShs**
Short term borrowings(current portion)		
Long term borrowings		
Total		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. CHANGES IN RECEIVABLE

Description of the error	2019 - 2020	2018 – 2019
	KShs	KShs
Account receivable as at 1st July 2019 (A)	249,094,734	309,773,466
Account receivable issued during the year (B)	3,000,000	15,050,000
Account receivable settled during the Year (C)	83,267,566	51,882,199
Net changes in account receivables D= A+B-C	**168,827,168**	**272,941,267**

22. CHANGES IN ACCOUNTS PAYABLE

Description of the error	2019 - 2020	2018 – 2019
	KShs	KShs
Accounts Payable as at 1st July 2019 (A)		
Accounts Payable held during the year (B)		
Accounts Payable paid during the Year (C)		
Net changes in account receivables D= A+B-C		

23. 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				
Total employee benefits obligation				

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Cash generated from operations

	2019/2020	2018/2019
	KShs	KShs
Surplus/ (deficit) for the year before tax		
Adjustedfor:		
Depreciation		
Amortisation		
Gains/ losses on disposal of assets		
Interest income	(6,415,715)	(8,293,036)
Finance cost	6,415,715	8,293,036
Working Capital adjustments		
Increase in inventory		
Increase in receivables		
Increase in payables		
Net cash flow from operating activities		

25. Related party balances

a) Nature of related party relationships

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Related party transactions

	2019/2020	2018/2019
	KShs	KShs
Transfers from related parties'		
Transfers to related parties		

c) Key management remuneration

	2019/2020	2018/2019
	KShs	KShs
Board of Trustees		
Key Management Compensation		
Total		

d) Due from related parties

	2019/2020	2018/2019
	KShs	KShs
Due from parent Ministry		
Due from County Government		
Total		

e) Due to related parties

	2019/2020	2018/2019
	KShs	KShs
Due to parent Ministry		
Due to County Government		
Due to Key management personnel		
Total		

26. Contingent assets and contingent liabilities

Contingent liabilities	2019/2020	2018/2019
	KShs	KShs
Court case against the Fund		
Bank guarantees		
Total		

14. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S 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)*

Guidance Notes:

a) Use the same reference numbers as contained in the external audit report;

b) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;

c) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;

d) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to County Treasury.