REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

SIAYA COUNTY ASSEMBLY CAR LOAN AND MORTGAGE FUND

FOR THE YEAR ENDED 30 JUNE, 2019

COUNTY ASSEMBLY OF SIAYA

LOANS AND MORTGAGE FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIALYEAR ENDED JUNE 30, 2019

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

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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The County Assembly of Siaya 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 mandates the administrator of public funds with the preparation of annual financial statements.

For proper management of the fund and as advised by the SRC in the circular under the reference, County Assembly of Siaya adopted the PFM regulations 2014 to guide in the operationalization of the fund. As advised by the SRC and as provided for under regulation 16 of the said regulations, the County Service Board appointed a fund committee to manage the fund. Therefore the fund is internally administered.

The SRC in its circular reference SRC/ADM/CIR/1/13 Vol.III (128) dated 17th December 2014 provided guidelines for access of car loan and mortgage benefits by state and public officers. Arising therefrom, the County Assembly Service Board approved and adopted the Staff Loans Policy Paper on 17th March 2015

The fund is wholly owned by the County Assembly of Siaya and is domiciled in Kenya.

b) Principal Activities

The principal activity/mission/ mandate of the fund is to provide car loans and Mortgage to Hon. Members of the County Assembly and staff.

Core Values

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

c) Board of Trustees/Fund Administration Committee

Ref	Name	Position
1	Hon Maurice Aringo	CASB Member –Vice Chairperson
2	Hon. Margaret Olale	CASB Member
3	Hon. Irene Shirley	Assembly Welfare Committee-Chairperson
4	Hon. Samuel Olasi	Assembly Majority Whip-Chairperson
5	Mr. David Okumu	Director Finance &Accounting Services
6	Mr. Erick Ogenga	Ag. County assembly Clerk
7	Ms.Roselinda Baraza	Dir. Hr and Administration
8	Mr. Christopher Omore	Clerk Assistant 11

a) Entity Headquarters

P.O. Box 7-40600
County Assembly Building/House/Plaza
SIAYA, KENYA
Telephone: +254708745148 / 0575321021
E-mail: .clerk@siayaassembly.go.ke / siayacountyassembly.go.ke
Website:www.siayaassembly.go.ke

b) Entity Contacts

Telephone: +254708745148 / 0575321021
E-mail: .clerk@siayaassembly.go.ke / siayacountyassembly.go.ke
Website: www.siayaassembly.go.ke

c) Fund Bankers

1. Co-operative Bank of Kenya Ltd
   Siaya Branch
   P.O. Box 7 -40600
   Siaya, Kenya

d) Independent Auditors

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

e) Principal Legal Adviser

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

2. FUND ADMINISTRATOR

It is my pleasure to present, on behalf of the board of trustees, the Siaya County Assembly Service Board Car and Mortgage Loan fund financial statements for the year ended 30th June 2019. The financial statements present the financial performance of the fund over the past year.

All the MCA and a number of officers have benefited from the fund. However, because of the large number of staff not all have benefited. Substantial allocation amounting to Kshs. 80,000,000 has been provided for in the Assembly's budget for the FY2019/2020.

Review of performance

Income

The fund earned revenues amounting to Kshs. 5,387,155.24 from the interest earned on the loan disbursed to Honourable Members of County Assembly and Staff.

Expenditures

The total expenditures during the period amounted to Kshs. 8,410 as bank charges. There were no major expenses apart from the Insurance premium paid which was treated as part of loan disbursed to the loan beneficiaries.

BOARD/FUND CHAIRPERSON'S REPORT (Continued)

Future outlook

The outlook of the Fund for 2018/2019 looks brighter. The fund focus is looking to build a robust and sustainable fund with a structures that enhance efficiency and effectiveness in the service delivery. The fund looks forward to continued support from the SCASB to the realization of its mandate.

Appreciation

I take this opportunity to express my sincere gratitude and appreciation to the SCASB, stakeholders, management, staff and fellow trustees for their continued support which made us achieve these results.

I look forward to your continued support in the year 2019/2020.

Signed: ____________________

Mr. Erick Ogenga

Ag. County Assembly Clerk
For Board Chairman

Auditor

The fund is audited by the Auditor-General.

3. MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS PERFORMANCE

Income

The fund earned revenues amounting to Kshs. 5,387,155.24 from the interest earned on the loan disbursed to Honourable Members of County Assembly and Staff.

Expenditures

The total expenditures during the period amounted to Kshs. 8,410 as bank charges. There were no major expenses apart from the Insurance premium paid which was treated as part of loan disbursed.

Cash flow

The cash and cash equivalents increased from Kshs 23,672,586 as at 30 June 2018 to Kshs 71,932,523 as at 30 June 2019. There was significant cash inflow from collections from honourable Members of County Assembly and staff.

OPERATIONAL PERFORMANCE

The fund's core operating activity has been the offering car loans and Mortgage to honourable members of County Assembly and staff.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Employees

Human capital is a critical ingredient towards ensuring realisation of our key strategic objectives and mandate. As our stakeholders increase their expectations, it is imperative to ensure adequate and motivated human resource capacity is available to provide services.

Conclusion

We appreciate the unrelenting support from the board of trustees, management, staff, the SCASB all the key stakeholders. We look forward to the continued partnerships and cooperation in areas of mutual interest in the FY 2019/2020.

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.

4. 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 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, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Administrator of the County Public Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. 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, 2018, 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 16|12| 2019 and signed on its behalf by:

Mr. Erick Ogenga
SCASB Car and Mortgage Loan Fund Administrator

REPUBLIC OF KENYA

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

OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Siaya County Assembly Car Loan and Mortgage Fund set out on pages 10 to 38, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows 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 Siaya County Assembly Car Loan and Mortgage Fund as at 30 June, 2019, 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 Siaya County Assembly Loans and Mortgage Fund Act, 2015.

Basis for Qualified Opinion

1. Presentation of Financial Statements

The financial statements have not been properly identified in that the statement of financial position has not been assigned a page number. Further, the name of the financial statements and the period covered have not been included as a header in some pages of the financial statements including the statement of financial performance, statement of changes in net assets and the statement of cashflows. This is contrary to paragraph 63 of International Public Sector Accounting Standard (IPSAS) No.1, which require each component of the financial statements to be clearly identified.

Consequently, the financial statements have not been presented in accordance with IPSAS No 1.

2. Unreconciled Outstanding Loans Balance

Included in the statement of financial position is an outstanding loan balance of Kshs.189,198,634 that is not in agreement with the balance as per loan register of

Kshs.191,506,084 (consisting of Kshs.21,026,957 being loans owed by members in the first term Assembly and Kshs.170,479,127 being loans owed by members in the second term Assembly) leading to an unreconciled difference of Kshs.2,307,450.

In the circumstances, the accuracy of the outstanding loan balance of Kshs.189,198,634 as at 30 June, 2019 could not be ascertained.

3. Accumulated Surplus

The statement of financial position as at 30 June, 2019 and the statement of changes in net assets for the year ended 30 June, 2019 reflects an accumulated surplus balance of Kshs.16,131,157. However, the opening balance of Kshs.10,752,412 does not agree with the closing comparative balance of Kshs.11,352,411 resulting in an unexplained and unreconciled variance of Kshs.599,999.

Under the circumstances, the accuracy of the accumulated surplus of Kshs.16,131,157 as at 30 June, 2019 could not be ascertained.

4. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.71,932,523 as at 30 June, 2019. However, the cashbook provided for audit reflected a cash book balance of Kshs.67,956,381 resulting in an unreconciled variance of Kshs.3,976,142.

Under the circumstances, the accuracy of cash and cash equivalents balance of Kshs.71,932,523 as at 30 June, 2019 could not be confirmed.

5. Over-Due Outstanding Loan Balances

Included in the figure of outstanding loans of Kshs.189,198,634 as at 30 June, 2019 is an amount of Kshs.20,376,342 owed by Members who served in the County Assembly between the year 2013 and 2017. These loans have remained outstanding for more than five years and putting their recoverability in doubt.

In the circumstances, the recoverability of the Kshs.20,376,342 is in doubt.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Siaya County Assembly Car Loan and Mortgage Fund in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Basis for Conclusion on 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

Unsecured Loans Disbursements

During the year under review, the Fund disbursed loans amounting to Kshs.31,518,423 to Members of the County Assembly of Siaya and Staff as disclosed at Note 2 to the financial statements. It was however noted that ownership documents had not been co-owned jointly between the applicants and County Assembly of Siaya as required by Section 10 of the County Assembly of Siaya Car Loans and Mortgage Fund Act, 2015.

The Management was therefore in breach of the law.

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 procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual

Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations, or have no realistic alternative but to do so.

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 money is applied in an effective manner.

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 review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Fund's policies and procedures may deteriorate.

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern or 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 Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

17 November, 2021

6. FINANCIAL STATEMENTS

6.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2019

		FY2018/2019	FY2017/2018
	Notes	**Kshs.**	**Kshs.**
Income			
Interest Earned	1	5,387,155	4,406,118
Total Income		**5,387,155**	**4,406,118**
Expenditure			
Insurance cost		-	-
Bank Charges		**8,410**	1,522
Total Expenditure		**8,410**	**1,522**
Surplus for the year		**5,378,745**	**4,404,596**

The explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 16/12/ 2019 and signed by:

Ag. Clerk of the Assembly

Name: Mr. Erick Ogenga

SCASB Car and Mortgage Loan Fund Administrator

Director Finance and Accounting Services- County Assembly

Name: Mr. David Ouma Okumu

ICPAK Member Number: 8170

6.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

		FY2018/2019	FY2017/2018
		19-Jun	18-Jun
	Notes	Kshs.	Kshs.
Current Assets			
Cash and Cash Equivalents		71,932,523	23,672,586
Loans and mortgages (outstanding)	2	189,198,634	**232,679,824**
Current Assets		**261,131,157**	**256,352,411**
Current Liabilities			
Payables		-	
Net Assets		**261,131,157**	**256,352,411**
Financed By			
Car Loan Fund Account		245,000,000	245,000,000
Accumulated Surplus	3	16,131,157	11,352,411
Net Value of the Fund		**261,131,157**	**256,352,411**

The explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 16/12/ 2019 and signed by:

Ag. Clerk of the Assembly
Assembly
Name: Mr. Erick Ogenga
SCASB Car and Mortgage Loan Fund Administrator

Director Finance and Accounting Services- County
Name: Mr. David Ouma Okumu
ICPAK Member Number: 8170

6.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2019

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2018	245,000,000	-	-	**245,000,000**
Surplus/(deficit) for the period	-	-	10,752,412	**10,752,412**
Funds received during the year	-	-	-	-
Revaluation gain	-	-	-	-
Balance as at 30 June 2018	**245,000,000**	-	**10,752,411**	**255,752,412**
Balance as at 1 July 2019	**245,000,000**	-	-	**245,000,000**
Surplus/(deficit) for the period	-	-	5,378,745	**5,378,745**
Funds received during the year	-	-	-	-
Revaluation gain	-	-	-	-
Balance as at 30 June 2019	**245,000,000**	-	**16,131,157**	**261,131,157**

The explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 16/12/ 2019 and signed by:

Ag. Clerk of the Assembly

Director Finance and Accounting Services- County Assembly

Name: Mr. Erick Ogenga
SCASB Car and Mortgage Loan Fund Administrator

Name: Mr. David Ouma Okumu

ICPAK Member Number: 8170

6.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

		FY2018/2019	FY2017/2018
	Notes		
Cash Flows from Operating Activities		KSHS	KSHS
Cash Receipts			
Loan Interest Earned	1	5,387,155.24	4,406,118.00
Accrued interest		-	-
Total cash received from Operating Activities 'a'		5,387,155.24	4,406,118.00
Cash Payments			
Bank Charges paid		8,410.00	1,521.70
Insurance cost		-	-
Total Payments 'b'		8,410.00	1,521.70
Net Cash from Operating Activities 'a'- 'b' = 'c'		5,378,745.24	4,404,596.30
Cash Flows from Investing Activities			
Principal Loans Paid by Members		74,399,614.00	65,690,294.70
Loans advanced to Members		(31,518,402.60)	(216,510,776.00)
Net Cash flows from Investing Activities'd'		42,881,211.40	(150,820,481.30)
Cash Flows from Investing Activities			
Cash Receipts from County Treasury			-
Cash paid to the County Revenue Fund			-
Net Cash flows from Financing Activities 'e'			
Net Cash flow		48,259,956.64	(146,415,885.00)
Cash at the beginning of the period 'f'		23,672,586.45	170,088,471.45
Cash at the end of the period (c + d + e)		71,932,522.50	23,672,586.45

The explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 16|12| 2019 and signed by:

Ag. Clerk of the Assembly

Name: Mr. Erick Ogenga
SCASB Car and Mortgage Loan Fund Administrator

Director Finance and Accounting Services- County Assembly

Name: Mr. David Ouma Okumu

ICPAK Member Number: 8170

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. 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.

5. 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.

6. Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or 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 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)

7. 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.

8. 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.

9. Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements.

10. 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.

11. 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.

12. Foreign currency transactions

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13. Borrowing costs

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

14. Related parties

The 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.

15. Cash and cash equivalents

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

16. Comparative figures

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

17. Events after the reporting period

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

18. Ultimate and Holding 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 ABC county assembly.

19. Currency

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

20. 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)

21. Financial risk management

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

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

a) Credit risk

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

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. 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 2019				
Receivables from exchange transactions	-	-	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	71,932,523	71,932,523	-	-
Total	**71,932,523**	**77,932,523**	-	-

-				
At 30 June 2018				
Receivables from exchange transactions				
Receivables from non-exchange transactions	-	-	-	-
Bank balances	23,672,586	23,672,586	-	-
Total	-	**23,672,586**	-	-

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.5. NOTES TO THE FINANCIAL STATEMENTS

1. Interest income

Description	FY2018/2019 KShs	FY2017/2018 KShs
Interest income from loans (mortgage or car loans)	5,387,155	4,406,118
Total interest income	**5,387,155**	**4,406,118**

2. Analysis of Outstanding Loan balance

	FY2018/2019	FY2017/2018
Category	**AMOUNT-KSHS**	**AMOUNT-KSHS**
Balance b/d	232,679,824.30	81,859,343.00
Loans Disbursed	31,518,423.00	216,510,776.00
Loan repayments	(80,386,769.03)	-70,096,412.70
Accrued Interest	5,387,155.24	4,406,118.00
Total	**189,198,633.51**	**232,679,824.30**

3. Accumulated surplus

	FY2018/2019	FY2017/2018
	KSHS.	KSHS.
Balance b/d	10,752,412	**6,947,814**
Surplus for the year	5,378,745.24	**4,404,596**
Total c/d	**16,131,157.24**	**11,352,411**

An adjustment has been done on the accumulated surplus brought forward and a journal voucher has been done to support the same.

4. Analysis of Bank Charges

	FY2018/2019	FY2017/2018
ANALYSIS OF BANK CHARGES	KSHS.	KSHS
COMMISSION ON DISBURSEMENT	3,900.00	1,521.70
INTERIM STATEMENT	3,400.00	-
EXCISE DUTY	1,110.00	-
TOTAL	**8,410.00**	**1,521.70**

7. 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)

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.