REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

*Enhancing Accountability*



# REPORT



# OF

# THE AUDITOR-GENERAL

# ON

# NYANDARUA COUNTY ASSEMBLY MCAs CAR LOAN AND MORTGAGE FUND

# FOR THE YEAR ENDED 30 JUNE, 2020

# REPUBLIC OF KENYA

## NYANDARUA COUNTY ASSEMBLY

## OFFICE OF THE CLERK

**Office Tel:** 020-2195542; **Mobile:** 0706-116880
P.O. Box 720-20303- **OL KALOU**

**Building:** Former Ol Kalou Town Council
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# NYANDARUA COUNTY ASSEMBLY

# MCAs CAR LOAN AND MORTGAGE FUND

# ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020

**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

Nyandarua County Assembly MCAs Car loan and Mortgage Fund was incorporated/ established under the PFM Act on 30th April 2014 and it's regulated by Nyandarua County Assembly Car loan and Mortgage regulations and Salaries and Remuneration Commission circulars .The Fund is wholly owned by the County Assembly of Nyandarua and is domiciled in Kenya.

### b) Principal Activities

The principal activities of Nyandarua County Assembly Fund is to grant car loans and Mortgages to the Members of the County Assembly elected the County Assembly of Nyandarua at a rate prescribed by the Salaries and Remuneration commission

### c) Fund Administration Committee

Nyandarua County Assembly MCAs Car loan and Mortgage fund is administered by a committee car loan and Mortgage fund committee. The key management personnel who compose the membership of the committee and who held office during the financial year ended 30th June 2020 were:

| No. | Designation | Name |
|---|---|---|
| 1. | Speaker /Chairman | **James Ndegwa Wahome** |
| 2. | Fund administrator | **Stephen Muriithi Wairimu** |
| 3. | Member | **John Kieru Wambui** |
| 4. | Member | **Kariuki Muchiri** |
| 5. | Member | **David Munyeki** |
| 6. | Member | **Nancy Mercy Njoki** |

### d) Registered Offices

P.O. Box 720-20303

Assembly Chambers Building

Olkalou- Nairobi Highway

Olkalou, Kenya

### e) Fund Contacts

Telephone: (254)706116880

E-mail: clerk@assembly.nyandarua.go.ke

Website: www.nyandaruacountyassembly.go.ke

**f) Fund Bankers**

Central Bank of Kenya

Haile Selassie Avenue

P.O. Box 60000

City Square 00200

Nairobi, Kenya

SBM Bank Limited

Head office Branch

P.O. BOX 34886-00100

Nairobi, Kenya

**g) Independent Auditors**

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

**h) Principal Legal Adviser**

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

## 2. BOARD/FUND CHAIRPERSON'S REPORT

The Nyandarua County Assembly MCAs Car Loan & Mortgage Fund was established through approval of the County Assembly, under Regulations 2015 and accordance with Public Finance Management Act, 2012.

The Nyandarua County Assembly MCAs Car Loan and Mortgage Fund initial capital consisted of the monies appropriated by the County Assembly in the FY 2013/14 amounting to Kshs 131 Million to operate as a revolving fund with annual increase from the Assembly's budget based on anticipated credit needs projections, funds available as well as repayments from the beneficiaries. In the FY 2014/2015, the fund grew with a further Ksh 74,000,000 and a further Ksh 5,000,000 in the FY 2015/2016 totalling to Ksh 210,000,000 in the revolving fund.

In the year under review, Nyandarua County Assembly MCAs Car Loan and Mortgage Fund reported disbursements amounting to Ksh 1,000,000 as at June 2020 yielding to a total loan disbursement of Ksh 184,190,000

**Hon James Wahome Ndegwa**
**The Chairman**
**Nyandarua County Assembly MCAs Car Loan and Mortgage Fund**

## 3. REPORT OF THE FUND ADMINISTRATOR

In the FY 2019/2020, there was no further funding which was received as an appropriation from the annual budget of Nyandarua County Assembly. The fund therefore opened with a balance of Ksh 210,000,000. In the Financial year, the Management disbursed new loans valued at Kshs 1 Million as compared to the 42.39 Million disbursements in the previous year representing a negative 97.64% growth, with 39 members benefiting as at 30th June 2020.

Principal loan repayment from beneficiaries amounted to Kshs 44.563 Million, a rise from Kshs 39.491 Million received in the FY 2018/2019. At the close of the year, the Fund had outstanding loans valued at Kshs 87.605 Million as outstanding loan and Kshs 122.394 Million cash balance.

Finally, we are confident the Fund will sustain the impressive performance to the future which is prerequisite in meeting its goals and objectives of providing affordable loan products to the staff.

Signed: __________________________-

**Stephen Muriithi Wairimu**

**Fund Administrator.**

## 4. MANAGEMENT DISCUSSION AND ANALYSIS

In the year the Fund portfolio increased from Ksh 183.19 Million to Ksh 184.19 Million representing 0.54 % growth rate. In terms of numbers, one new loans were disbursed as compared to seven disbursed in the FY 2019/2020.

In the year the Fund did not receive any funds from the Exchequer while the entire amount in the Nyandarua County Assembly MCAs Car loan and Mortgage Fund was disbursed to members on need basis. Interest Income earned from loans decreased from Ksh 4,742,225.12 in the FY 2018/2019 to Ksh 3,326,073.95 in the FY 2019/2020. In conclusion the Fund has shown steady growth in net worth from Kshs 131 Million in the first year of operation to Kshs 210 Million in the year under review.

## 5. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

The Clerk of the County assembly who is the administrator of the Nyandarua Staff Car Loan and Mortgage 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 Nyandarua MCAs Car Loan and Mortgage 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 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 Nyandarua MCAs Car Loan and Mortgage 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 11/12. 2020 and signed on its behalf by:

Administrator of the County Assembly MCAs Car Loan and Mortgage Fund

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 NYANDARUA COUNTY ASSEMBLY MCAs CAR LOAN AND MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

**Disclaimer of Opinion**

I have audited the accompanying financial statements of Nyandarua County Assembly MCAs Car Loan and Mortgage Fund set out on pages 10 to 29, which comprise the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in net assets, statement of cashflows 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

**Basis for Disclaimer of Opinion**

**1. Errors in the Annual Reports and Financial Statements**

A review of the financial statements revealed the following;

1.1 The names of the Fund Administration Committee on page 3 are not accompanied by their respective passport size photographs and descriptions of each person's date of birth, key academic/professional qualifications and work experience.

1.2 Note 1 to the financial statements in respect of interest income has not been analysed to show the interest earned from car loan, mortgage or other investments as required by the Public Sector Accounting Standards Board template.

1.3 Note 3 on cash and cash equivalents has not disclosed the name and account number of the bank account.

1.4 The long-term receivables from exchange transactions balance of Kshs.87,605,134 in the statement of financial position has not been categorized into current and long-term balances.

1.5 There is no provision for the follow up of auditor's recommendation on previous years' matters.

In the circumstances, the financial statements do not comply with the International Public Sector Accounting Standard No.1 on presentation of financial statements as prescribed by the Public Sector Accounting Standards Board guidelines.

**2. Interest Income**

The statement of financial performance reflects interest income of Kshs.3,326,074 for the year ended 30 June, 2020, and as also shown under Note 1 to the financial statements. However, the interest earned from the amounts held in the savings and fixed deposit accounts at SBM Bank Kenya have not been disclosed.

In the circumstances, the accuracy of the interest income of Kshs.3,326,074 for the year ended 30 June, 2020 could not be confirmed.

**3. Unsupported Fund Administration Expenses**

The statement of financial performance reflects fund administration expenses of Kshs.3,326,074 for the year ended 30 June, 2020. However, schedules or expenditure statements from the administrator to support the balance were not provided for audit verification.

In the circumstances, the accuracy of the fund administration expenses of Kshs.3,326,074 for the year ended 30 June, 2020 could not be confirmed.

**4. Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.122,394,866 as at 30 June, 2020. The amount is held at SBM Bank. However, the balance was not supported with cashbooks, bank statements, bank reconciliation statements and bank confirmation certificates.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.122,394,866 as at 30 June, 2020 could not be confirmed.

**5. Unsupported Long-term Receivables from Exchange Transactions**

The statement of financial position as at 30 June, 2020 reflects long term receivables from exchange transactions balance of Kshs.87,605,134. The amount is in respect of principal loan balances held by the members. However, the schedule of loan holders does not indicate for each member, the opening loan balance, subsequent interest and repayments in the year and closing balance.

In the circumstances, the accuracy of long-term receivables from exchange transactions of Kshs.87,605,134 as at 30 June, 2020 could not be confirmed.

**6. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.3,326,074 and Kshs.3,326,074 respectively resulting to a balanced budget.

Similarly, the actual expenditure reflects a balance of Kshs.3,326,074 against an approved budget of Kshs.3,326,074 resulting to a balanced budget.

However, the comparisons could not be confirmed since the Fund did not prepare a budget as required by Regulation 29(2)(a) of the Public Finance Management (County Governments) Regulations, 2015 which states that the accounting officer is responsible, in particular for ensuring that all services which can be reasonably foreseen are included in the estimates and that they are within the capacity of her or his county government entity during the financial year.

Consequently, the Management of the Fund was in breach of the law.

**7. Fund Administrative Expenses**

The statement of financial performance for the year ended 30 June, 2020 reflects Fund administrative expenses of Kshs.3,326,074 representing 100% of the total approved budget. This is contrary to Section 197 (1) (d) of the Public Finance Management (County Governments) Regulations, 2015 which limits the administration costs of the fund to a maximum of three (3) percent of the approved budget. Therefore, administrative costs exceeded the allowable limit by 97% (or Kshs.3,226,292).

Consequently, the Management of the Fund was in breach of the law.

**8. Failure to Develop Risk and Fire Management Strategy**

The Fund has not developed risk and fire management strategies. This is contrary to Section 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that 'the Accounting Officer shall ensure that (a) the county government entity develops risk management strategies, which include fraud prevention mechanism; and (b) the county government entity develops a system of risk management and internal control that builds robust business operations. Failure to develop a risk management strategy may impair the effectiveness of the Board in managing a robust business operation of the Fund.

Consequently, the Fund's Management did not comply with the law and its effectiveness in handling risks.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

**Conclusion**

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

**Conclusion**

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

### Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue 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 terminate the Fund or to cease operations.

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

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of Nyandarua County Assembly MCAs Car Loan and Mortgage Fund financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article

229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of Nyandarua County Assembly MCAs 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.

**CPA Nancy Gathungu, CBS**
**AUDITOR-GENERAL**

**Nairobi**

**09 February, 2022**

## 6. FINANCIAL STATEMENTS

### 6.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2020

| | Note | FY2019/2020 KShs | FY2018/2019 KShs |
|---|---|---|---|
| **Revenue from non-exchange transactions** | | | |
| Public contributions and donations | | - | - |
| Transfers from the County Government | | - | - |
| Fines, penalties and other levies | | - | - |
| | | | |
| **Revenue from exchange transactions** | | | |
| Interest income | 1 | 3,326,074 | 4,742,225 |
| Other income | | - | - |
| | | | |
| **Total revenue** | | **3,326,074** | **4,742,225** |
| **Expenses** | | | |
| Fund administration expenses | 2 | 3,326,074 | 4,742,225 |
| Staff Costs | | | |
| General expenses – | | - | - |
| Finance costs/bank Charges | | | |
| **Total expenses** | | **3,326,074** | **4,742,225** |
| **Other gains/losses** | | | |
| Gain/loss on disposal of assets | 10 | - | - |
| **Surplus/(deficit) for the period** | | - | - |

## 6.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

| | Note | FY2019/2020 KShs | FY2018/2019 KShs |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 3 | 122,394,866 | 78,831,395 |
| **Non-current assets** | | | |
| Property, plant and equipment | | - | - |
| Intangible assets | | - | - |
| Long term receivables from exchange transactions | 4 | 87,605,134 | 131,168,605 |
| | | | |
| **Total assets** | | **210,000,000.00** | **210,000,000.00** |
| **Liabilities** | | | |
| | | | |
| **Net assets** | | | |
| Revolving Fund | | 210,000,000 | 210,000,000 |
| Reserves | | - | - |
| Accumulated surplus | | | |
| **Total net assets and liabilities** | | **210,000,000** | **210,000,000** |

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 11/12/ 2020 and signed by:

Administrator of the Fund
Stephen Muriithi Wairimu

Fund Accountant
Dominic Chege Wacera
ICPAK Member Number: 15593

## 6.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2020

| | Revolving Fund | Revaluation Reserve KShs | Accumulated surplus KShs | Total KShs |
|---|---|---|---|---|
| | | | | |
| **Balance as at 1 July 2016** | **210,000,000** | - | - | **210,000,000** |
| Surplus/(deficit) for the period | - | - | | - |
| Funds received during the year | | - | - | |
| Revaluation gain | - | - | - | - |
| **Balance as at 30 June 2017** | **210,000,000** | - | | **210,000,000** |
| | | | | |
| **Balance as at 1 July 2017** | **210,000,000** | - | | **210,000,000** |
| Surplus/(deficit) for the period | - | - | | - |
| Funds received during the year | | - | - | |
| Revaluation gain | - | - | - | - |
| **Balance as at 30 June 2018** | **210,000,000** | - | | **210,000,000** |
| | | | | |
| **Balance as at 1 July 2018** | **210,000,000** | - | | **210,000,000** |
| **Surplus/(deficit) for the period** | - | - | | - |
| **Funds received during the year** | | - | - | |
| **Revaluation gain** | - | - | - | - |
| **Balance as at 30 June 2019** | **210,000,000** | - | | **210,000,000** |
| **Balance as at 1 July 2019** | **210,000,000** | - | | **210,000,000** |
| **Surplus/(deficit) for the period** | - | - | | - |
| **Funds received during the year** | | - | - | |
| **Revaluation gain** | - | - | - | - |
| **Balance as at 30 June 2020** | **210,000,000** | - | | **210,000,000** |
| | | | | |

## 6.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

| | Note | FY2019/2020 KShs | FY2018/2019 KShs |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Public contributions and donations | | - | - |
| Transfers from the County Government | | - | - |
| Interest received | | 3,326,074 | 4,742,225 |
| Receipts from other operating activities | | - | - |
| **Total Receipts** | | **3,326,074** | **4,742,225** |
| **Payments** | | | |
| Fund administration expenses | | 3,326,074 | 4,742,225 |
| General expenses | | | |
| Finance cost | | | |
| **Total Payments** | | **3,326,074** | **4,742,225** |
| **Net cash flows from operating activities** | | **-0.00** | **-0.00** |
| **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 | | 44,563,471 | 39,490,831 |
| Loan disbursements paid out | | -1,000,000 | -42,390,000 |
| **Net cash flows used in investing activities** | | **43,563,471** | **-2,889,169** |
| **Cash flows from financing activities** | | | |
| Proceeds from revolving fund receipts | | | |
| Additional borrowings | | | |
| Repayment of borrowings | | | |
| **Net cash flows used in financing activities** | | - | - |
| **Net increase/(decrease) in cash and cash equivalents** | | **43,563,471** | **-2,899,169** |
| Cash and cash equivalents at 1 JULY | | **78,831,395** | 81,239,670 |
| **Cash and cash equivalents at 30 JUNE** | | **122,394,866** | **78,831,395** |

Administrator of the Fund
Stephen Muriithi wairimu

Fund Accountant
Dominic Chege Wacera
ICPAK Member Number: 15593

## 6.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2020

| | Original budget | Final budget | Actual on comparable basis | Performance difference | % utilisation |
|---|---|---|---|---|---|
| | 2020 | 2020 | 2020 | 2020 | 2020 |
| **Revenue** | **KShs** | **KShs** | **KShs** | **KShs** | |
| Public contributions and donations | - | - | - | - | |
| Transfers from County Govt. | - | - | - | - | |
| Interest income | 3,326,074 | 3,326,074 | 3,326,074 | - | 100% |
| | - | - | - | - | |
| **Total income** | **3,326,074** | **3,326,074** | **3,326,074** | - | **100%** |
| | | | | | |
| **Expenses** | | | | | |
| Fund administration expenses | 3,326,074 | 3,326,074 | 3,326,074 | - | 100% |
| Staff costs | - | - | - | - | |
| General expenses | - | - | - | - | |
| Finance cost | | | | - | |
| **Total expenditure** | **3,326,074** | **3,326,074** | **3,326,074** | - | **100%** |
| **Surplus for the period** | - | - | - | - | |

Administrator of the Fund
Stephen Muriithi Wairimu

Fund Accountant
Dominic Chege Wacera
ICPAK Member Number: 15593

## 6.6. 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) 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 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. |

**b) Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2019.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3. Revenue recognition

#### i) Revenue from non-exchange transactions

**Transfers from other government entities**

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

#### ii) Revenue from exchange transactions

***Interest income***

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

### 4. Budget information

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

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

## 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 a entity of financial assets is impaired. A financial asset or a entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or 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 labor 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. There were no reserves held for the fund as at 30th June 2019

**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 PFM Act 2012. Its ultimate parent is the County Government of Nyandarua.

### 20. Currency

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 21. Significant judgments and sources of estimation uncertainty

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

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

### Useful lives and residual values

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

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

### Provisions

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

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 22. Financial risk management

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

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

### a) Credit risk

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

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

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

| | Total amount KShs | Fully performing KShs | Past due KShs | Impaired KShs |
|---|---|---|---|---|
| **At 30 June 2020** | | | | |
| Receivables from exchange transactions | - | | | |
| Receivables from non exchange transactions | 87,605,134 | 131,168,605 | | |
| Bank balances | 122,394,866 | 78,831,395 | | |
| **Total** | **210,000,000** | **210,000,000** | | |
| | | | | |
| **At 30 June 2019** | | | | |
| Receivables from exchange transactions | - | | | |
| Receivables from non exchange transactions | 131,168,605 | 131,168,605 | | |
| Bank balances | 78,831,395 | 78,831,395 | | |
| **Total** | **210,000,000** | **210,000,000** | | |

## 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:

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Foreign currency sensitivity analysis**

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

| | Change in currency rate KShs | Effect on surplus/ deficit KShs | Effect on equity 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 company's interest rate risk arises from bank deposits. This exposes the Fund to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Fund's deposits.

*Management of interest rate risk*

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

*Sensitivity analysis*

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### d) Capital risk management

The objective of the Fund's capital risk management is to safeguard the Fund's ability to continue as a going concern. The entity capital structure comprises of the following funds:

| | 2020 KShs | | 2019 KShs |
|---|---|---|---|
| Revaluation reserve | | | |
| Revolving fund | 210,000,000 | | 210,000,000 |
| Accumulated surplus | - | | - |
| **Total funds** | **210,000,000** | | **210,000,000** |
| | | | |
| Total borrowings | | | |
| Less: cash and bank balances | 122,394,866 | | 78,831,395 |
| Net debt/(excess cash and cash equivalents) | 87,605,134 | | 131,168,605 |
| **Gearing** | **0.7158%** | | **1.664%** |

## 6.7. NOTES TO THE FINANCIAL STATEMENTS

### 1. Interest income

| Description | FY2019/2020<br>KShs | FY2018/2019<br>KShs |
|---|---|---|
| Interest income from loans(mortgage or car loans | 3,326,074 | 4,742,225 |
| **Total interest income** | **3,326,074** | **4,742,225** |

### 2. Administration Expenses

| Description | FY2018/2019<br>KShs | FY2017/2018<br>KShs |
|---|---|---|
| | - | - |
| Bank Charges/administration expenses | 3,326,074 | 3,326,074 |
| **Total** | **3,326,074** | **3,326,074** |

### 3. Cash and cash equivalents

| Description | FY2018/2019<br>KShs | FY2018/2019<br>KShs |
|---|---|---|
| Fixed deposits account | | |
| On – call deposits | | |
| Current account | 122,394,866 | 78,831,395 |
| Others | | |
| **Total cash and cash equivalents** | **122,394,866** | **78,831,395** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**4. Receivables from exchange transactions**

| Description | FY2019/2020 KShs | FY2018/2019 KShs |
|---|---|---|
| **Non Current receivables** | | |
| Long term loan repayments due | 87,605,134 | 131,168,605 |
| **Total Non current receivables** | **87,605,134** | **131,168,605** |
| **Total receivables from exchange transactions** | **87,605,134** | **131,168,605** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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