

REPUBLIC OF KENYA



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

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

**FOR THE YEAR ENDED  
30 JUNE, 2019**

PAPERS LAID	
DATE	16/02/2022
TABLED BY COMMITTEE	LEADER OF MAJORITY
CLERK AT THE TABLE	M-ADJIBODDU



10/10/2010





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**VIHIGA COUNTY ASSEMBLY**  
**CAR LOAN AND MORTGAGE FUND**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED**  
**JUNE 30, 2019**

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

**VIHIGA COUNTY ASSEMBLY**  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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## 1. KEY ENTITY INFORMATION AND MANAGEMENT

### a) Background information

The VIHIGA county assembly car loan and mortgage scheme is a revolving fund established pursuant to the Salaries and Remuneration Commission (SRC) circular number SRC/TS/WH/3/14 of 14<sup>th</sup> February 2014 and the Vihiga county assembly car loan and mortgage Act 2018. 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, Vihiga county Assembly the Vihiga county assembly car loan and mortgage Act 2018 and 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 committee to run the fund.

Until 31<sup>st</sup> August 2017, the fund was under the management of financial institution, co-operative bank Ltd. The role of the bank was to provide administrative services for the fund. However, there was no formal agreement between the assembly and the bank leading to termination of the administrative services with effect from 31<sup>st</sup> August 2018. Since then, the fund has been internally administered in the county government by the office of the clerk.

The SRC in its circular reference SRC/ADM/CIR/1/13 Vol.III (128) dated 17<sup>th</sup> 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 regulations on 17<sup>th</sup> March 2015

The fund is wholly owned by the county assembly of Vihiga and is domiciled in Kenya.

### b) Principal Activities

The principal activity/mission/ mandate of the fund is to provide car loans and mortgage facilities to members of the county assembly and to staff.

#### **Vision**

“The fund of choice for members and staff.”

#### **Mission**

“To provide affordable, accessible and sustainable loans to all members of vihiga county assembly.”

#### **Core Values**

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

**VIHIGA COUNTY ASSEMBLY**  
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**c) Fund Administration Committee**

<b>Ref</b>	<b>Name</b>	<b>Position</b>
1	Hon. Joab Ambaka Kilinga	Clerk – Vihiga County Assembly
2	Hon. Moses Opole	Chairman – administration committee
3	Hon. Douglas Isumba Beru	Vice chairman-administration committee
4	Hon. Victor Ijaika Bulemi	Majority whip
5	Hon. Henry Asava	Chairman budget committee
6	Hon. Clementine Osodo	Member
7	Hon. Nickson Butiya Isiji	Member
8	Mr. Oscar Miyinzi Jagona	Principal finance officer-member

**d) Registered Offices**

P.O. Box 90 - 50300  
Clerk's chambers  
Assembly headquarters  
Maragoli, KENYA

**e) Fund Contacts**

Telephone: (254) 020 2094140  
E-mail: [Vihigaassembly@gmail.com](mailto:Vihigaassembly@gmail.com).  
Website: [www.vihigacountyassembly.go.ke](http://www.vihigacountyassembly.go.ke)

**f) Fund Bankers**

The co-operative bank of Kenya,  
Mbale branch  
P.O. Box 816 -50300  
Maragoli

**g) Independent Auditors**

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

**h) Principal Legal Advisor**

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

## **2. FUND CHAIRPERSON'S REPORT**

It is my pleasure to present, on behalf of the County Assembly Service Board, the vihiga car loan and mortgage fund financial statements for the year ended 30<sup>th</sup> June 2019. The financial statements present the financial performance of the fund over the past year.

### **Sustainability**

The fund and its stakeholders are increasingly emphasizing on the need to ensure sustainability for both its investments and its resource mobilization and financing capabilities with an objective of ensuring that the fund's going concern is secured.

The fund has conducted a basic assessment of available options for feasible financing tools that would assure the fund of its long term sustainability. The fund has reviewed its current resource mobilization strategies and proposed feasible sustainability financing options.

### **Board and Management Changes**

The board established a taskforce with the mandate to review and interrogate the adequacy and effectiveness of the fund's organogram in carrying out its mandate and make recommendations. The taskforce carried out the assignment and made several recommendations key among them the automation of the fund's operations. The organisation arrangement is expected to enhance efficiency in service delivery.

### **Review of performance**

#### **Income**

The income from interest amounted to ksh 3,866,732 representing 110 % of the budgeted amount of Ksh 3,500,000. There was no other income other than interest income.

During the period, a total of Ksh 43,820,000 was disbursed as new and additional loans. efforts by all stakeholders.

#### **Expenditures**

The total expenditures during the period amounted to KShs. 617,798.00 out of which the general expenses amounted to KShs. 336,000.00, finance costs KShs.144,427.00 and fund administration expenses Kshs. 137,371.

**BOARD/FUND CHAIRPERSON'S REPORT (Continued)**

**Future outlook**

The outlook of the Fund for 2019/2020 looks brighter. The fund received Ksh 7 million from the Imprest account as part of the debt settlement amounting to Ksh 82 million. The Fund hopes to go slow on loan disbursements in the year 2019/2020 in order to shore up capital for the year 2022. The fund focus is looking to build a robust and sustainable fund with a motivated workforce and structures that enhance efficiency and effectiveness in the service delivery. The fund looks forward to continued support from the county government and development partners to the realization of its mandate.

**Appreciation**

I take this opportunity to express my sincere gratitude and appreciation to the county government, development partners, 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: \_\_\_\_\_



**HON MOSES OPOLE**  
**FUND CHAIRMAN**



### **3. REPORT OF THE FUND ADMINISTRATOR**

It is my pleasure to present the Vihiga Car loan and mortgage financial statements for the year ended 30<sup>th</sup> June 2019. The financial statements present the financial performance of the fund over the past year.

The fund was established on 1<sup>st</sup> May 2014 and started with an initial amount of KShs 200M . Since then, a total of 108 loan beneficiaries have made borrowings amounting to KShs 267M. Of this, KShs214 M had been paid and KShs 144M was outstanding as at the reporting date.

#### **Financial Performance**

##### **a) Revenue**

In the year ended 30<sup>th</sup> June 2019, the fund had projected revenues of KShs 3,500,000. Out of the projected revenue, the fund was able to realise KShs 3,866,732 in actual revenues, representing 110% performance.

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

<b>Revenue classification</b>	<b>Revenue budget (KShs)</b>	<b>Actual (KShs)</b>	<b>Realization (%)</b>
<b>Revenue</b>	<b>KShs</b>	<b>KShs</b>	
Interest income	3,500,000	3,866,732	110%
Fines, penalties and other levies	0	0	-
<b>Total income</b>	<b>3,500,000</b>	<b>3,866,732</b>	<b>110%</b>

##### **b) Loans**

During the financial year 2018/2019, the fund disbursed 23 new loans plus top ups bringing the total loan beneficiaries to date to 108.

##### **c) Cash flows**

In the FY 2018/2019, we have had liquidity issues. This was as a result of previous borrowings by the county assembly and the fact that the number of potential borrowers has increased by over 100 employees. However the cash and cash equivalents increased from KShs 3,323,460 as at 30<sup>th</sup> June 2018 to KShs 10,605,520 as at 30<sup>th</sup> June 2019.

##### **d) Conclusion**

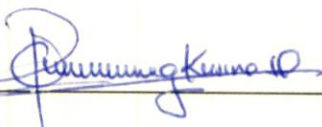
FY 2018/2019 was a good year in general. Good progress was made and the momentum has been created to enable Vihiga county assembly car loan and mortgage fund continue on a trajectory into prosperity. We have identified gaps and areas to improve on in the subsequent years.

**VIHIGA COUNTY ASSEMBLY**  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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**REPORT OF THE FUND ADMINISTRATOR (Continued)**

I take this opportunity to thank the board of trustees for their support. I would also want to thank all staff who we have worked hand in hand to ensure that Vihiga County Assembly car loan and mortgage fund achieves its mission.

Signed:   
\_\_\_\_\_

**Ambaka Kiliga**  
**Fund administrator.**

#### **4. CORPORATE GOVERNANCE STATEMENT**

##### **THE BOARD**

The Vihiga county assembly car loan & mortgage scheme is a revolving fund established pursuant to the Salaries and Remuneration Commission (SRC) circular number SRC/TS/WH/3/14 of 14<sup>th</sup> February 2014. Section 167 of the Public Finance Management (PFM) Act 2012. Its mandate is to provide car loans to members of staff. The fund is committed to ensuring compliance with regulatory and supervisory corporate governance requirements. Essential to the establishment of a corporate governance framework in the fund is a formal governance structure with the board of management at its apex. The operations of the fund are governed by the Vihiga county assembly car loan regulations 2015. The structure is designed to ensure an informed decision making process based on accurate reporting to the board.

##### **THE BOARD OF MANAGEMENT**

The Regulations 2015 provides that the board members shall be made up of five trustees, including the chairman, and shall consist of a chairperson and six other members identified for appointment through a competitive process. The board of management is responsible for the long-term strategic direction of the fund and recruitment of the Fund Administrator and senior management. The board of management exercises leadership, enterprise, integrity and judgement in directing the Fund.

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

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

##### **BOARD MEETINGS**

The board meets quarterly or as required in order to monitor the implementation of the fund's strategic plan and achievement of the targets in the performance contract signed with the county assembly. The board also plays an oversight role over all other financial and operational issues. The members held seven full board and two special board meetings during the FY 2018/2019.

**STATEMENT OF CORPORATE GOVERNANCE (Continued)**

**AUDIT AND RISK COMMITTEE**

In ensuring that corporate governance and integrity is enhanced in between the governance of the fund, the county assembly service board has established an audit and risk committee. The committee was established to advise the board on institutional risk management and compliance. The members of this committee during the year under review were:

<b>S/No.</b>	<b>Name</b>	<b>Position in committee</b>	<b>Period Served</b>
1	Mr Nebert Avutswa	Chairperson	5 <sup>th</sup> Dec 2016 to 5 <sup>h</sup> Dec 2019
2	Ms. Lucy Anangwe	Member	5 <sup>th</sup> Dec 2016 to 5 <sup>th</sup> Dec 2019
3	Ms. Harriet Mahasi	Member	5 <sup>th</sup> Dec 2016 to 5 <sup>th</sup> Dec 2019
4	Ms. Linet Mugalitsi	Member	5 <sup>th</sup> Dec 2016 to 5 <sup>th</sup> Dec 2019
5	Ms Brenda Ajema	Secretary	5 <sup>st</sup> Dec 2016 to 5 <sup>th</sup> Dec 2019

**STATEMENT OF COMPLIANCE**

The board confirms that the fund has throughout the FY2018/2019 complied with all statutory and regulatory requirements and that the fund has been managed in accordance with the principles of good corporate governance.

**INTERNAL CONTROL AND RISK MANAGEMENT**

**Internal Control**

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

**Standing Instructions**

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

**Organization Structure**

A clear organizational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and

**STATEMENT OF CORPORATE GOVERNANCE (Continued)**

awareness of controls, and identifies appropriate training requirements. Training plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the fund can meet its future management requirements.

**Strategic Plan**

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

**Internal Control Framework**

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

The audit and risk committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the board. Where weaknesses are identified, the committee ensures that management takes appropriate action. No significant failings or weaknesses were identified during the FY 2018/2019.

**Management Team**

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

**Auditor**

The fund is audited by the Auditor-General.

## **5. MANAGEMENT DISCUSSION AND ANALYSIS**

The fund has continued to grow over the years and the management has put measures in place to safeguard against risks.

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 staff with an established credit history.

The management has ensured that we comply with statutory requirements relating to the functions of the fund and also making sure that statutory deductions are remitted on time to avoid incurring penalties and interests for non-compliance.

### **BUSINESS PERFORMANCE**

#### **Revenue**

The fund earned revenues amounting to KShs. 3,866,732.00 from interest on loans.

#### **Cash flow**

The cash and cash equivalents increased from KShs 3,323,460 as at 30 June 2018 to KShs 10,605,520 as at 30 June 2019. There was equally a significant cash outflow as disbursement of loans to external CASB members and staff who became eligible upon clearing their commercial loans and meeting the set criteria.

### **OPERATIONAL PERFORMANCE**

The fund's core operating activity has been the offering car loans and mortgage to members of county assembly (mcas) and staff. The county assembly has supported the fund and increased collections from members of staff has also added to the fund's better performance.

#### **Conclusion**

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

**6. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

Corporate social responsibility is an integral part of our culture. As a responsible organisation, we respect the interests of our stakeholders – our employees, customers, suppliers and the wider community and we actively seek opportunities both to improve the environment and to contribute to the well-being of the communities around us.

During the financial year 2018/19, the fund did carry out any major activity as far as CSR is concerned

We are looking forward to getting involved more in these and other areas, and the management team has been tasked with coming up with more CSR ideas.

## **7. REPORT OF THE BOARD**

The Board submits their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the Fund affairs.

### **Principal activities**

The principal activity of the Fund is to provide financing to the members of staff to purchase cars for personal use.

### **Results**

The results of the Fund for the year ended June 30, 2019 are set out on pages 14 to 32.

### **Management**

The members of the Board who served during the year are shown on page 4. There were no changes in the Board during the FY 2018/19.

### **Auditors**

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

By Order of the Board

Moses Opole



Member of the Board

Date: 24/01/2020



## **8. 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, 2019, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the 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.

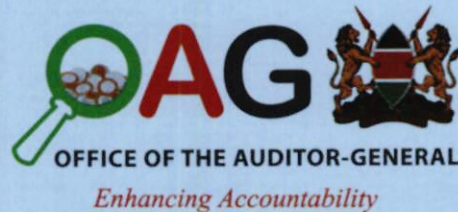
### **Approval of the financial statements**

The Fund's financial statements were approved by the Board on 30/06/ 2019 and signed on its behalf by:

  
\_\_\_\_\_  
**AMBAKA KILINGA**  
Vihiga County Assembly Car Loan And  
Mortgage Fund Administrator

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

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

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Vihiga County Assembly Car Loan and Mortgage Fund set out on pages 15 to 34, which comprise of the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Vihiga 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 Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1. Inaccuracies in the Financial Statement**

The following errors were noted on the financial statements:

- (i) The statement of financial performance reflects fund administration expenses of Kshs.336,000 and Kshs.1,095,456 for the financial year 2018/2019 and comparative 2017/2018 respectively. However, the balances differ from the amount disclosed under Note 3 of the financial statements of Kshs.281,798 and of Kshs.1,643,000 in respect to the two financial years. The variances have not been explained or reconciled.
- (ii) The statement of financial performance reflects finance costs of Kshs.281,798 which differs with an amount of Kshs.14,300 shown under Note 5 to the financial statements. The resultant difference of Kshs.267,498 has not been explained or reconciled.

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

## 2. Unsupported Adjustments

The amended financial statements submitted to the Auditor-General on 30 September, 2019 were revised and an amended set submitted on 21 January, 2020 with changes in some figures as follows:

Item	Balance in the Revised Financial Statements Received on 21 January, 2020 (Kshs.)	Balance in the Initial Financial Statements Received on 30 September, 2019 (Kshs.)	Difference (Kshs.)
Current position of Long-term Receivables from Exchange Transactions	44,520,445	123,921,195	79,400,750
Related Party	75,820,527	0	75,820,527
Long-term Loan Repayments Due	99,781,558	96,201,335	3,580,223
General Expenses	-	137,371	(137,371)
Finance Cost	281,798	144,427	137,371

However, no journal entries were provided for the above changes in balances between the two sets of financial statements.

Consequently, the validity, accuracy and completeness of the financial statements as 30 June, 2019 could not be confirmed.

## 3. Unexplained Variance in Net Assets

The statement of financial position reflects revolving fund, reserves and accumulated surplus balances of Kshs.200,000,000, Kshs.27,479,116 and Kshs.3,248,934 respectively as at 30 June, 2019. However, the statement of changes in net assets reflects balances of Kshs.200,000,000 and Kshs.30,728,050 in respect of revolving fund and accumulated surplus respectively, while the reserves balance has been omitted in the statement. The differences between the two statements have not been explained.

As a result, the accuracy and completeness of the reserves and accumulated surplus reflected in the financial statements could not be confirmed.

## 4. Presentation of the Financial Statements

The statement of changes in net assets has been labelled 'as at 30 June, 2019', instead of 'for the year ended 30 June, 2019' in line with the requirements of the International Public Sector Accounting Standards (IPSAS). Further, pages 1 to 17 of the financial statements are headed Vihiga County Assembly instead of Vihiga County Assembly Car Loan and Mortgage Fund.

Consequently, the presentation of financial statements did not conform to IPSAS.

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

### **Key Audit Matters**

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

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Failure to Constitute Loan and Mortgage Sub-Committees**

Regulation 9(1) and (2) of the Public Finance Management (Vihiga County Assembly Members and Staff Mortgage and Car Loan Schemes Fund) Regulations, 2015 requires the Management to establish an Assembly members sub-committee and staff sub-committee. Further, Regulation 10 stipulates that the sub-committees established under Regulation 9 shall be respectively, consider and process application for loans from members and staff of Assembly in accordance with existing terms and conditions of borrowing and recommend to the Management committee for approval of the loans. However, the Fund Management Committee did not establish the sub-committees as required by the law and there was no evidence indicating that the loans were approved as required.

As a result, loans totalling Kshs.99,781,558 representing long term receivables from exchange transactions and Kshs.44,520,445 representing current portion of the long-term receivables from exchange transactions reflected in the statement of financial position as at 30 June, 2019 was issued contrary to the above regulations.

Further, a review of records revealed the following anomalies:

- i) Loans were issued to Members of County Assembly, staff and officials of the Fund without the committee approval. The loans included an amount of Kshs.7,700,000

issued to Chief Officers and Members' of the County Assembly during the year under review.

- ii) Two Members of the County Assembly were advanced Kshs.1,980,000 for purchase of cars but no log-books were held by the Fund as collateral in case of default by the beneficiaries.
- iii) A mortgage application form of Kshs.3,000,000 for one member of the County Assembly was not approved by the Fund Management Committee and was not authorized by the Fund Administrator.
- iv) The Salaries and Remuneration Commission guidelines stipulates that a member can take a maximum of Kshs.5,000,000 (Kshs.2,000,000 car loan and Kshs.3,000,000 for mortgage). However, records provided for audit revealed that some beneficiaries of the fund were granted loans above the stipulated ceiling.
- v) Payroll records indicated that Members of the County Assembly who received car loans from the Fund did not repay the loans and no evidence was provided on the measures being taken to regularise the repayments.

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

## **2. Failure to Secure Loans with Collaterals**

### **2.1 Mortgage Loan**

Audit review of mortgage loan forms and title deeds presented as collateral for the loans revealed that members of the County Assembly and staff had outstanding mortgage loans totalling Kshs.106,301,022 as at June, 2019. However, the mortgage loans were not secured with a charge on title deeds for the property in the name of the Fund, contrary to Regulation 20(1) of the Public Finance Management (Vihiga County Assembly Members and Staff Mortgage and Car Loans Schemes Fund) Regulations, 2015.

Further, no evidence was provided for audit review to confirm if the mortgage loans were insured as per the requirement of the Regulation 20(1) and 21(1) of the above Fund's Regulations enacted in 2015.

### **2.2 Car Loan**

Records provided indicated that as at 30 June, 2019, the Members of the County Assembly and staff had outstanding car loans totalling to Kshs.35,926,347. However, the car loans were not secured with a charge on the logbook of the vehicles as collateral for the loans. Further, records indicated that logbooks in respect of loans taken by four (4) Members were not jointly registered between the Vihiga County Assembly Service Board and the Members who borrowed the loans contrary to Regulation 25 of the Public Finance Management (Vihiga County Assembly Members and Staff Mortgage and Car Loans Schemes Fund) Regulations, 2015.

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

### **Basis for Conclusion**

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

### **Responsibilities of Management and those Charged with Governance**

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

In preparing the financial statements, Management is responsible for assessing the 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.

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional 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 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**

**12 November, 2021**

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*Report of the Auditor-General on Vihiga County Assembly Car Loan and Mortgage Fund for the year ended 30 June, 2019*



**10. FINANCIAL STATEMENTS**

**10.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2019**

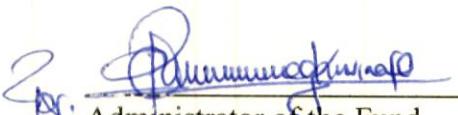
	Note	FY 2018/2019	FY 2017/2018
		KShs	KShs
<b>Revenue from non-exchange transactions</b>			
Fines, penalties and other levies	1		18,294,767
			<b>18,294,767</b>
<b>Revenue from exchange transactions</b>			
Interest income	2	3,866,732	2,528,991
		<b>3,866,732</b>	<b>2,528,991</b>
<b>Total revenue</b>		<b>3,866,732</b>	<b>20,823,758</b>
<b>Expenses</b>			
Fund administration expenses	3	336,000	1,095,456
General expenses	4	-	1,980,484
Finance costs	5	281,798	14,300
<b>Total expenses</b>		<b>617,798</b>	<b>3,090,240</b>
<b>Surplus/( deficit) for the period</b>		<b>3,248,934</b>	<b>17,733,518</b>

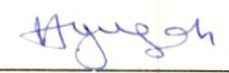
The notes set out on pages 33 to 44 form an integral part of these Financial Statements

**10.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019**

	Note	FY2018/2019 KShs	FY2017/2018 KShs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	10,605,520	3,323,460
Current portion of long term receivables from exchange transactions	7	44,520,445	118,357,069
Related Party	11	75,820,527	
		<b>130,946,492</b>	<b>121,680,529</b>
<b>Non-current assets</b>			
Long term receivables from exchange transactions	8	99,781,558	105,798,587
		<b>99,781,558</b>	<b>105,798,587</b>
<b>Total assets</b>		<b>230,728,050</b>	<b>227,479,116</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current portion of borrowings	9	-	-
		-	-
<b>Non-current liabilities</b>			
Long term portion of borrowings	-		
<b>Total liabilities</b>		-	-
<b>Net assets</b>		<b>230,525,695</b>	<b>227,479,116</b>
Revolving Fund		200,000,000	200,000,000
Reserves		27,479,116	17,733,518
Accumulated surplus		3,248,934	9,745,598
<b>Total equity</b>		<b>230,728,050</b>	<b>227,479,116</b>

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 30.06 2019 and signed by:

  
 Administrator of the Fund  
 Name: Ambaka Kilinga

  
 Principal Finance Officer  
 Name: Oscar Jagona

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

	Revolving Fund	Accumulated surplus	Total
		KShs	KShs
<b>Balance as at 1 July 2017</b>	200,000,000	9,745,598	<b>209,745,598</b>
Surplus/(deficit) for the period	-	17,733,518	17,733,518
Funds received during the year	-	-	-
<b>Balance as at 30 June 2018</b>	<b>200,000,000</b>	<b>27,479,116</b>	<b>227,479,116</b>
<b>Balance as at 1 July 2018</b>	<b>200,000,000</b>	<b>27,479,116</b>	<b>227,479,116</b>
Surplus/(deficit) for the period	0	3,248,934	<b>3,248,934</b>
Funds received during the year	0	-	
Revaluation gain	-	-	
<b>Balance as at 30 June 2019</b>	<b>200,000,000</b>	<b>30,728,050</b>	<b>230,728,050</b>

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

	Note	FY2018/2019	FY2017/2018
		KShs	KShs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Transfers from the County Government		0	0
Interest received	2	3,866,732	2,528,991
Receipts from other operating activities		0	21,374,767
<b>Total Receipts</b>		<b>3,866,732</b>	<b>23,903,758</b>
<b>Payments</b>			
Fund administration expenses	3	336,000	1,095,456
General expenses	4	-	1,980,484
Finance cost	5	281,798	14,300
<b>Total Payments</b>		<b>617,798</b>	<b>3,090,240</b>
<b>Net cash flows from operating activities</b>		<b>3,248,934</b>	<b>20,813,518</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		0	0
Proceeds from loan principal repayments		40,853,126	19,491,649
Loan disbursements paid out		(43,820,000)	(150,630,000)
<b>Net cash flows used in investing activities</b>		<b>(2,966,874)</b>	<b>(131,138,351)</b>
<b>Cash flows from financing activities</b>			
Proceeds from revolving fund receipts		0	0
Additional borrowings		(3,000,000)	
Repayment of borrowings		10,000,000	0
<b>Net cash flows used in financing activities</b>		<b>7,000,000</b>	<b>0</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7,282,060</b>	<b>(110,324,833)</b>
Cash and cash equivalents at 1 JULY 2018		3,323,460	113,648,293
<b>Cash and cash equivalents at 30 JUNE 2019</b>		<b>10,605,520</b>	<b>3,323,460</b>

**10.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30<sup>th</sup> JUNE 2019**

	Original budget 2019	Adjustments 2019	Final budget 2019	Actual on comparable basis 2019	Performance difference 2019	% achievement 2019
<b>Revenue</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>	
Public contributions and donations					-	-
Transfers from County Govt.					-	-
Interest income	3,500,000	-	3,866,732	3,866,732	-	110%
Other income	0		0	0	-	
<b>Total income</b>	<b>3,500,000</b>		<b>3,866,732</b>	<b>3,866,732</b>	-	<b>110%</b>
<b>Expenses</b>						
Fund administration expenses	336,000	-	336,000	336,000	-	100%
General expenses		-	-	-	-	-
Finance cost	281,798		281,798	281,798		100%
<b>Total expenditure</b>	<b>617,798</b>		<b>617,798</b>	<b>617,798</b>		<b>100%</b>
<b>Surplus for the period</b>			<b>3,248,934</b>	<b>3,248,934</b>		<b>100%</b>

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**10.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Statement of compliance and basis of preparation**

The Fund's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Fund. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

**2. Adoption of new and revised standards**

**a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 39:</b> Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> 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**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 40: Public Sector Combinations</b>	<b>Applicable: 1<sup>st</sup> January 2019:</b> 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 2019.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3. Revenue recognition**

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

**Transfers from other government entities**

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

**ii) Revenue from exchange transactions**

***Interest income***

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

**4. Budget information**

The original budget for FY 2017/2018 was approved by the County Assembly on 10<sup>th</sup> May 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

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

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

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

**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



**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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. 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.

*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.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**7. 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.

***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.

**8. Nature and purpose of reserves**

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

**9. 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.

**10. 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.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**11. 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.

**12. Comparative figures**

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

**13. Events after the reporting period**

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

**14. 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 Vihiga County Assembly.

**15. Currency**

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

**16. 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.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**17. 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.

**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.

**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.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**d) Capital risk management**

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

	2019	2018
	KShs	KShs
Revaluation reserve		
Revolving fund	200,000,000	200,000,000
Accumulated surplus	30,728,050	27,479,116
<b>Total funds</b>	<b>230,728,050</b>	<b>227,479,116</b>
Total borrowings	144,174,129	150,630,000
Less: cash and bank balances	(10,605,520)	(3,323,460)
Net debt/(excess cash and cash equivalents)	(133,568,609)	(147,306,540)
<b>Gearing</b>	<b>58%</b>	<b>65%</b>

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**10.7. NOTES TO THE FINANCIAL STATEMENTS**

**1. Fines, penalties and other levies**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Late payment penalties		-
Fines	0	18,294,767
<b>Total</b>	<b>0</b>	<b>18,297,767</b>

**2. Interest income**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Interest income from loans (mortgage or car loans)	3,866,732	2,528,991
<b>Total interest income</b>	<b>3,866,732</b>	<b>2,528,991</b>

**3. Fund administration expenses**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Staff costs (Note 7)		
Loan processing costs		
Professional services costs (bank commission)	281,798	1,643,000
<b>Total</b>		

**4. General expenses**

Description	FY2017/2018	FY2016/2017
	KShs	KShs
Insurance costs		1,980,484

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	-	-
<b>Total</b>	<b>0</b>	<b>1,980,484</b>

**5. Finance costs**

Description	FY2018/2019	FY2017/2018
	Kshs	Kshs
Bank charges		14,300
<b>Total</b>		<b>14,300</b>

**6. Cash and cash equivalents**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Current account	10,605,520	3,323,460
Others	-	-
<b>Total cash and cash equivalents</b>	<b>10,605,520</b>	<b>3,323,460</b>

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

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

Financial institution	Account number	FY2018/2019	FY2017/2018
		KShs	KShs
<b>a) Current account</b>			
Cooperative Bank	01141472757300	10,605,520	3,323,460
<b>Sub- total</b>		<b>10,605,520</b>	<b>3,323,460</b>
<b>Grand total</b>		<b>10,605,520</b>	<b>3,323,460</b>

**7. Receivables from exchange transactions**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
<b>Current Receivables</b>		



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Interest receivable		
Current loan repayments due	44,520,446	35,536,542
Other exchange debtors	-	82,820,527
Less: impairment allowance		
<b>Total Current receivables</b>	<b>44,520,446</b>	<b>118,357,069</b>
<b>Non-Current receivables</b>		
Long term loan repayments due	99,781,558	105,798,587
<b>Total Non-current receivables</b>	<b>99,781,558</b>	<b>105,798,587</b>
<b>Total receivables from exchange transactions</b>	<b>144,302,004</b>	<b>224,155,656</b>

**8. Trade and other payables from exchange transactions**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Trade payables		
Refundable deposits		
Accrued expenses		
Other payables		273,864
<b>Total trade and other payables</b>		<b>273,864</b>

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

Description	FY2017/2018	FY2016/2017
	KShs	KShs
Short term borrowings(current portion)		
Long term borrowings		
<b>Total</b>		

**10. Cash generated from operations**

	FY2018/2019	FY2017/2018
	KShs	KShs
Surplus for the year before tax		
Adjusted for:		
Depreciation		

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Gains/ losses on disposal of assets		
Interest income	3,866,732	2,528,991
Finance cost	617,798	3,090,240
<b>Working Capital adjustments</b>		
Decrease in inventory		
(Increase )/Decrease in receivables		
Increase in payables		
<b>Net cash flow from operating activities</b>	<b>3,248,934</b>	<b>(561,249)</b>

**11. Related party balances**

**a) Nature of related party relationships**

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

- a) Vihiga County Assembly;
- b) Board of Management; and
- c) Key management personnel.

In the year under review the County Assembly borrowed a total of Ksh 3,000,000 and refunded Kshs 10,000,000 bringing the current outstanding balance at Ksh 75,820,527 up from Kshs 82,820,527.

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**11. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.0	Unrealised interest income Ksh 874,631	This was collected by the bank as commission for administering the fund	Oscar Jagona –Principal Finance Officer	Resolved	Resolved by Jun
2.0	Irregular Clearance of Uncleared Loan Ksh 2M	This was inadvertently done by the bank. Legal redress is being sought	Francis Rakewa – Principal Legal Counsel	Not resolved	To be finalised by 30 June 2019
3.0	Outstanding Loan Ksh 15,294,679	A substantial amount has been collected leaving a balance of Ksh 3.2M	Ambaka Kilinga-Assembly Clerk	Not Resolved	To be finalised by 30 January 2019
4.0	Unreconciled bank balance Ksh 4,414,119	The Auditor General picked the figure for 31 <sup>st</sup> May 2017 Kshs 109,234,171 instead of the correct figure of Ksh 113,648,293 of 30 <sup>th</sup> June 2017	Stephen Masambu - Accountant	Resolved	-
5.0	Inter Accounts borrowing Ksh 75,820,527	The balance currently stands at 75M	Hon Ambaka Kilinga-Assembly Clerk	Not resolved	

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***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.