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REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

COUNTY ASSEMBLY OF NAKURU CAR LOAN, GRANT AND MORTGAGE SCHEME FUND

FOR THE YEAR ENDED 30 JUNE, 2021

COUNTY ASSEMBLY OF NAKURU
CAR LOAN, GRANT & MORTGAGE SCHEME FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
30^{TH} JUNE, 2021

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

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1. KEY COUNTY ASSEMBLY OF NAKURU INFORMATION AND MANAGEMENT

a) Background information

The Nakuru County Assembly Car Loan and Mortgage Fund was established under County Government of Nakuru Car Loan and Mortgage Scheme Fund Regulations of 2016. The regulations were amended on 15th March,2021. The Fund is wholly owned by the County Assembly of Nakuru and is domiciled in Kenya.

The principal purpose and object of the Act is to establish a loan scheme to provide loans to Members of the Scheme to purchase motor vehicles or residential houses in addition to develop, renovate or repair their residential property.

The Fund's principal activity is advancing Car Loans and Mortgage to members of County Assembly and staffs.

Staff of the Assembly.

b) Key Management

Ref	Name	Position
1	Joseph M. Malinda	County Assembly Clerk
2	Stephen M. Gatimu	Deputy County Assembly Clerk
3	Jane N. Waweru	Director Finance, Budget and Procurement
4	Jane W. Karanja	Director Human Resource and Development
5	Joseph K. Chege	Director Hansard and ICT

c) Fiduciary Oversight Arrangements

Here, provide a high-level description of the key fiduciary oversight arrangements covering (say):

Ref	Position	Name
1	Public Account and Investment Committee	Members
2	Deputy Director Internal Audit	Samuel Maina Munyeki
3		

d) Registered Offices

P.O. Box 907
Ugatuzi Plaza
Nakuru – Eldoret Highway
Nakuru, KENYA

e) Fund Contacts

Telephone :(254)051-2216472
E-mail: clerkassembly@nakurucounty.go.ke
Website: www.nakurucounty.org.ke

f) Fund Bankers

1. Family Bank Ltd
   Family Bank Towers,
   Muindi Mbingu Street
   P.O. Box 7414-00200
   City Square
   Nairobi, Kenya
   Account No. 018000055807
   Account No. 018000067410
   Account No. 018000073215
   Account No. 018000073217

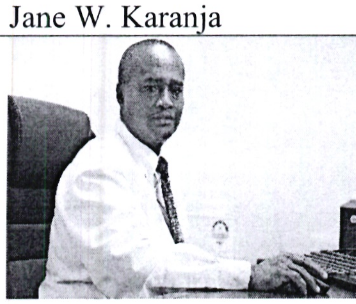
g) Independent Auditors

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

h) Principal Legal Adviser

The County Attorney
P.O. Box 2870 - 20100
County Government of Nakuru Headquarters
Nakuru, Kenya

2. MANAGEMENT TEAM

	Name	Details of qualifications and experience
1	 Joseph M. Malinda	Masters of Business Administration (MBA), Bachelors of Law (LLB). 26 years' Experience. Clerk to the County Assembly. Date of Birth: 27th December 1969
2	 Stephen M. Gatimu	MPA, Bachelor of Arts (BA). 13 years' Experience. Deputy Clerk Date of Birth: 12th December 1981
3	 Jane N. Waweru	Bachelor of Commerce, CPA (K). 21 years' experience. Director-Finance. Date of Birth: 28th May 1972
4	 Jane W. Karanja	Bachelor of Business Administration (BBM), Diploma in Business Management. 21 years' experience. Director Human Resource and Development. Date of Birth: 27th July 1969
5	 Joseph K. Chege	Bachelor of Arts (BA), Diploma in Mass Communication, 26 years' Experience. Director Hansard and ICT Date of Birth: 22nd September 1968

3. STATEMENT OF PERFORMANCE AGAINST NAKURU COUNTY ASSEMBLY'S OBJECTIVES

The Fund has to a large extent achieved its intended purpose and objectives. To this extend all the Members of County Assembly have accessed the facility on priority basis since their period in the Assembly is limited to the term they are in Office.

The Fund has also covered a bigger percentage of Members of Staff with preference to those with few years remaining in service. The Fund is yet to cover all the Staff Members and the County Assembly Service Board is endeavouring to allocate additional seed capital to the Fund so as to cover all the Members of Staff in future.

In the FY 2020/2021, the fund's objective was to make available a minimum amount of sh 40 million through a budgetary allocation of sh 10 million, loan repayments and interests to facilitate the remaining staff who would wish to benefit from the fund. During the year, an amount of ksh 35.5 million was advanced to staff members which is 89% of its target in the year.

4. REPORT OF THE FUND ADMINISTRATOR

The Financial Statements for the Fund for the financial year 2020-2021 were prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board of Kenya.

The County Assembly Service Board entered into an agreement with Family Bank Limited to run the day-to-day administration of the Fund on behalf of the Board. The Board oversights the performance of the fund through timely considerations of quarterly reports. All the loans being disbursed are secured and an insurance cover is there to cushion the Assembly just in-case of any eventuality. To further safeguard the funds, the properties are always charged and jointly registered between the Board and the beneficiary.

The total loan disbursement for the FY 2020-2021 was **KES 35,500,000**; this represented a **KES 5,428,000** drop from the previous period. The drop in disbursement was due to the fact that all Members of the Assembly had already taken up the loan except for a few top ups and loan uptake by Members of Staff.

The fund was reduced in its revolving fund by a whooping KES 160 million after the Salaries and Renumeration Commission through a circular dated 9th February, 2021 {REF: SRC/TS/COG/3/61/48 VOL. II (113)} gave an advisory to convert the Car Loan into a grant. The Assembly through a supplementary budget saw it fit to enhance the fund by KES 10 million so as to reduce the deficit brought about by the conversion of car loan into a car grant facility. Despite the challenge of limited financing of the Fund, the Scheme has been able to benefit both the Staff and Members of County Assembly: however, the Assembly in coming financial year purposes to allocate adequate budget to cater for the third Assembly and Members of Staff who have not benefited from the Fund.

Signed: ______________________

Joseph M. Malinda

Clerk to the County Assembly.

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 established by Fund Regulations, 2021 shall prepare financial statements for the of Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Administrator of Fund is responsible for the preparation and presentation of the of Fund financial statements, which give a true and fair view of the state of affairs of the of Fund for and as at the end of the financial year ended on 30th June 2021. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the of 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 of Fund
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

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

In preparing the financial statements, the Administrator of 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 Clerk of the County Assembly on 31/12/ 2021 and signed on its behalf by:

Clerk of the County Assembly

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 COUNTY ASSEMBLY OF NAKURU CAR LOAN, GRANT AND MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Assembly of Nakuru Car Loan, Grant and Mortgage Scheme Fund set out on pages 9 to 29, which comprise of the statement of financial position as at 30 June, 2021 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the County Assembly of Nakuru Car Loan, Grant and Mortgage Scheme Fund as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Public Finance Management Act, 2012 and Nakuru County Assembly Car Loan, Grant and Mortgage (Member and Staff) Scheme Fund Regulations, 2021.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

The financial statements for the year ended 30 June, 2021 presented for audit had the following inaccuracies:

i. The statement of financial position and as disclosed in Note 6 reflects the current portion of long-term receivable from exchange transactions balance of Kshs.105,601,721 and long-term receivables balance of Kshs.236,182,847 respectively. However, the current portion of long-term receivables from exchange transactions increased by Kshs.5,734,336 while the long-term receivables decreased by Kshs.77,356,838 resulting to net decrease of receivables totaling to Kshs.71,622,502. The amount is at variance with the statement of cash flows balance of Kshs.139,984,871 resulting to an unexplained and unreconciled amount of Kshs.68,362,369.

ii. The statement of financial position reflects a revolving fund balance of Kshs.312,153,529, from Kshs.472,153,529 in 2019/2020, which is a decrease of Kshs.160,000,000. However, the statement of cash flow reflects cash flows from financing activities as Nil balance resulting to a variance of Kshs.160,000,000 that has not been explained or reconciled.

iii. The statement of cash flows reflects net cash from operating activities of nil balance. However, Note 7 to the financial statements reflects an amount of Kshs.6,852,748 resulting to unexplained and unreconciled variance of Kshs.6,852,748. Further, a recast of the cash flows from operating activities resulted to Kshs.120,851,189 instead of the Nil balance indicated in the cash flow statement.

iv. The statement of cash flow reflects interest received balance of Kshs.10,008,641 However, the statement of comparison of budget and actual amounts reflects

Kshs.10,941,822 resulting to unexplained and unreconciled variance of Kshs.933,181.

In the circumstances, the accuracy and completeness of the respective financial statements could not be confirmed.

2. Unsupported Interest Income

As disclosed in Note 2 to the financial statements, the statement of financial performance reflects interest income amounting to Kshs.10,941,822. However, supporting schedules indicating the names of employees, opening balances, additions, interest rate, interest accrued, repayments and outstanding balance were not provided for audit.

Further, 1% of the gross accrued interest income recovered at source by the Scheme Manager has not been included in the financial statements.

In the circumstances, the accuracy and completeness of the interest income balance of Kshs.10,941,822 could not be confirmed.

3. Unsupported Fund Administration Expenses

As disclosed in Note 3 to the financial statements, the statement of financial performance reflects fund administration expenses totalling to Kshs.3,647,274 for the year ended 30 June, 2021. However, payment vouchers, names of payees, amount of payments, description of services rendered and the basis of computation were not provided for audit.

Further, Management appointed a bank to administer the Fund which deducted 1% of the interest accrued at source. However, the amount deducted has not been disclosed in the financial statements as an expense.

In the circumstance, the accuracy and completeness of fund administration expenditure of Kshs.3,647,274 could not be confirmed.

4. Unsupported Current Portion of Long-Term Receivables from Exchange Transactions

As disclosed in Note 6 to the financial statements, the statement of financial position reflects current portion of long-term receivables balance of Kshs.105,601,721 as at 30 June, 2021. However, the balance was not supported with a detailed schedule showing the opening balance, additions for the year and repayments.

In the circumstance, the accuracy and completeness of the current portion of long-term receivables balance of Kshs.105,601,721 as at 30 June, 2021 could not be confirmed.

5. Unsupported Long-Term Receivables from Exchange Transactions

As disclosed in Note 7 to the financial statements, the statement of financial position reflects long term receivables from exchange transaction balance of Kshs.236,182,847 as at 30 June, 2021. However, the balance was not supported with a detailed schedule showing the opening balance, additions for the year and repayments.

In the circumstances, the accuracy and completeness of long-term receivables from exchange transactions balance of Kshs.236,182,847 as at 30 June, 2021 could not be confirmed.

6. Unauthorized Expenditure

The statement of comparison of budget and actual amounts for the period ended 30 June, 2021 reflects a Nil final expenditure budget against actual expenditure of Kshs.4,089,074 resulting to an over expenditure of Kshs.4,089,074 that was not approved contrary to Regulation 43(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that County government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the contingencies fund, or supplementary estimates.

In the circumstances, the accuracy and completeness of the statement of comparison of budget and actual amounts could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of the Nakuru Car Loan, Grant and Mortgage Scheme 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 Adverse 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are complying, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and 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 overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Funds' ability to sustain its services, disclosing, as applicable, matters related to sustainability of its 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 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 skepticism throughout the audit. I also:

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

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

- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 July, 2022

7. FINANCIAL STATEMENTS

7.1. STATEMENT OF FINANCIAL PERFORMANCEFOR THE YEAR ENDED 30TH JUNE 2021

	Note	FY 2020-2021	FY 2019-2020
		KES	KES
Revenue from non-exchange transactions			
		-	-
Transfers from the County Government	1	-	-
Revenue from exchange transactions			
Interest income	2	10,941,822	12,528,748
Total revenue		**10,941,822**	**12,528,748**
Expenses			
Fund administration expenses	3	3,647,274	4,176,249
General expenses	4	441,800	467,060
Finance costs		-	-
Total expenses		**4,089,074**	**4,643,309**
Other gains/losses			
Gain/loss on disposal of assets		-	-
Surplus/(deficit) for the period		**6,852,748**	**7,885,439**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. Fund 's financial statements were approved on 31/12/ 2021 and signed by:

Fund Administrator
Joseph M. Malinda.

Director of Finance
Jane N. Waweru
ICPAK Member No: 7941

7.2. STATEMENT OF FINANCIAL POSITIONAS AT 30TH JUNE 2021

	Note	FY 2020-2021 KES	FY 2019-2020 KES
Assets			
Current assets			
Cash and cash equivalents	5	9,768,270	91,293,019
Current portion of long-term receivables from exchange transactions	6	105,601,721	99,867,385
Prepayments			-
Non-Current Assets			-
Long term receivables from exchange transactions	6	236,182,847	313,539,685
Total Assets		**351,552,838**	**504,700,089**
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions			
Provisions		-	-
Current portion of borrowings		-	-
Employee benefit obligations		-	-
Non-Current Liabilities		-	-
Non-current employee benefit obligation			
Long term portion of borrowings		-	-
Total Liabilities		-	-
Net Assets		**351,552,838**	**504,700,089**
Revolving Fund		312,153,529	472,153,529
Reserves			
Accumulated surplus		39,399,308	32,546,560
Total net assets and liabilities		**351,552,838**	**504,700,089**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. Fund 's financial statements were approved on 31/12/ 2021 and signed by:

Fund Administrator
Joseph M. Malinda.

Director of Finance
Jane N. Waweru
ICPAK Member No: 7941

7.3. STATEMENT OF CHANGES IN NET ASSETSAS AT 30TH JUNE 2021

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KES	KES	KES
Balance as at 1 July 2019	**457,153,529**	**-**	**24,661,122**	**481,814,651**
Surplus/(deficit) for the period		-	7,885,439	**7,885,439**
Funds received during the year	15,000,000	-	-	**15,000,000**
Revaluation gain	-	-	-	**-**
Balance as at 30 June 2020	**472,153,529**	**-**	**32,546,560**	**504,700,089**
Balance as at 1 July 2020	**472,153,529**	**-**	**32,546,560**	**504,700,089**
Surplus/(deficit) for the period		-	6,852,748	**6,852,748**
Funds received during the year	**-**	-	-	**-**
Revaluation gain/loss	(160,000,000)	-	-	**(160,000,000)**
Balance as at 30 June 2021	**312,153,529**	**-**	**39,399,308**	**351,552,837**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. Fund 's financial statements were approved on 31/12/ 2021 and signed by:

Fund Administrator
Joseph M. Malinda.

Director of Finance
Jane N. Waweru
ICPAK Member No: 7941

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

	Note	FY 2020-2021 KES	FY 2019-2020 KES
Cash flows from operating activities			
Receipts			
Public contributions and donations		-	-
Transfers from the County Government	1	-	15,000,000
Interest received	2	10,008,641	3,149,413
Receipts from other operating activities			-
Total Receipts		**10,008,641**	**18,149,413**
Payments			
Fund administration expenses	3	-	-
General expenses	4	-	-
Finance Cost		(441,800)	(467,060)
Total Payments		**(441,800)**	**467,060**
Adjusted For:			
Decrease/(Increase) in accounts receivable: (Car Loan converted to Car Grant)	6	(139,984,871)	-
Decrease/(Increase) in accounts receivable:		-	-
Increase/(Decrease) in Accounts Payable: (deposits and retention)		-	-
Total		**(130,418,030)**	**17,682,353**
Net cash flows from operating activities		-	-
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		-	-
Proceeds from sale of property, plant and equipment		-	-
Proceeds from loan principal repayments		84,393,281	98,264,597
Loan disbursements paid out		(35,500,000)	(40,928,000)
Net cash flows used in investing activities		**48,893,281**	**57,336,597**
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		**(81,524,749)**	**75,018,950**
Cash and cash equivalents at 1st July	5	91,293,019	16,274,069
Cash and cash equivalents at 30 JUNE		**9,768,270**	**91,293,019**

7.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTSFOR THE PERIOD ENDED 30TH JUNE 2021

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilization
	2018/19	2018/19	2018/19	2020/21	2020/21	2018/19
Revenue	**KES**	**KES**	**KES**	**KES**	**KES**	
Public contributions and donations				-	-	
Transfers from County Govt.	-	10,000,000	10,000,000		10,000,000	
Interest income				10,941,822	(10,941,822)	
Other income				-	-	
Total Income	**-**	**10,000,000**	**10,000,000**	**10,941,822**	**(941,822)**	
Expenses						
Fund administration expenses				3,647,274	(3,647,274)	
General expenses				441,800	(441,800)	
Finance cost				-	-	
Total expenditure				**4,089,074**	**(4,089,074)**	
Surplus for the period				**6,852,748**	**(6,852,748)**	

7.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

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 2019

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	**Applicable: 1st January 2019** 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 2019

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

c) Early adoption of standards

The County Assembly of Nakuru did not early – adopt any new or amended standards in year 2020-2021.

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 County Assembly of Nakuru and can be measured reliably.

ii) Revenue from exchange transactions

Interest income

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

4. Budget information

The original budget for FY 2020/2021 was approved by the County Assembly on June, 2020. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the County Assembly of Nakuru upon receiving the respective approvals in order to conclude the final budget.

The County Assembly of Nakuru'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 7.5 of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the County Assembly of Nakuru 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 County Assembly of Nakuru 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 County Assembly of Fund 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

Fund assesses at each reporting date whether there is objective evidence that a financial asset or Fund financial assets is impaired. A financial asset or Fund 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 County Assembly of Nakuru of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or County Assembly of Nakuru 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. Fund 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.

8. Inventories

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

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

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

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

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

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

9. Provisions

Provisions are recognized when Fund 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 Fund 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

Fund 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

Fund 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 Fund 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. Changes in accounting policies and estimates

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

11. Employee benefits– Retirement benefit plans

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

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

12. Foreign currency transactions

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

13. Borrowing costs

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

14. Related parties

Fund regards a related party as a person or a County Assembly of Nakuru with the ability to exert control individually or jointly, or to exercise significant influence over Fund, or vice versa. Members of key management are regarded as related parties and comprise the Directors, The Clerk and Senior Managers.

15. Cash and cash equivalents

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

16. Comparative figures

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

17. Events after the reporting period

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

18. Ultimate and Holding of County Assembly of Nakuru

Fund was established under Fund Regulations of 2016. The regulations were amended on 19^{th} February,2021. The Fund is wholly owned by the County Assembly of Nakuru and is domiciled in Kenya. Its ultimate parent is the County Government of Nakuru.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

19. Currency

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

20. Significant judgments and sources of estimation uncertainty

The preparation of Fund'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 County Assembly of Nakuru 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 Fund. 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 Fund.
- 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

21. Financial risk management

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

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

a) Credit risk

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

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors.

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 County Assembly of Nakuru's short, medium and long-term funding and liquidity management requirements. Fund managers liquidity risk through continuous monitoring of forecasts and actual cash flows.

c) Market risk

The Management has put in place an internal audit function to assist it in assessing the risk faced by the County Assembly of Nakuru 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 Fund '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 County Assembly of Nakuru's exposure to market risks or the manner in which it manages and measures the risk.

i. Interest rate risk

Interest rate risk is the risk that Fund 's financial condition may be adversely affected as a result of changes in interest rate levels. Fund '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. Fund capital structure comprises of the following funds:

	2020-2021		2019-2020
	KES		KES
Revaluation reserve	-		-
Revolving fund	312,153,529		472,153,529
Accumulated surplus	39,399,308		32,546,560
Total funds	**351,552,837**		**504,700,089**
Total borrowings	-		-
Less: cash and bank balances	(9,768,270)		(91,293,019)
Net debt/(excess cash and cash equivalents)	341,784,568		413,407,070
Gearing	**3%**		**22%**

7.7. NOTES TO THE FINANCIAL STATEMENTS

1. Transfer from County Government

Description	FY 2020-2021	FY 2019-2020
	KES	KES
Transfers from County Government	-	15,000,000
Payments by County on behalf of the County Assembly of Nakuru	-	-
Total	**-**	**15,000,000**

2. Interest income

Description	FY 2020-2021	FY 2019/2020
	KES	KES
Interest income from loans (mortgage or car loans)	10,941,822	12,528,748
Total interest income	**10,941,822**	**12,528,748**

3. Fund administration expenses

Description	FY 2020-2021	FY 2019-2020
Professional services costs	3,647,274	4,176,249
Total	**3,647,274**	**4,176,249**

4. General expenses

Description	FY 2020-2021	FY 2019-2020
	KES	KES
Loan Disbursements	-	-
Bank Charges and ledger fees	441,800	467,060
Total	**441,800**	**467,060**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Cash and cash equivalents

Description	FY 2020-2021	FY 2019-2020
	KES	KES
Main Fund Account	1	12,899,384
Interest Account	1	3,935,027
Loan Principal Account	52,261	65,906,735
Remittance Account	9,716,008	8,551,873
Total cash and cash equivalents	**9,768,270**	**91,293,019**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Financial institution	Account number	FY 2020-2021 KES	FY 2019-2020 KES
c) **Current account**			
FAMILY BANK MAIN ACCOUNT	18000055807	1	12,899,384
INTEREST ACCOUNT	18000067410	1	3,935,027
LOAN PRINCIPAL ACCOUNT	18000073215	52,261	65,906,735
LOAN REMMITANCE ACCOUNT	1800073217	9,716,008	8,551,873
Sub- total		**9,768,270**	**91,293,019**
Grand total		**9,768,270**	**91,293,019**

6. Receivables from exchange transactions

Description	FY 2020-2021 KES	FY 2019-2020 KES
Current Receivables		
Interest receivable	3,707,458	6,376,455
Current loan repayments due	101,894,263	93,490,930
Total Current receivables	**105,601,721**	**99,867,385**
Non-Current receivables		
Long term loan repayments due	236,182,846	313,539,685
Total Non-current receivables	**236,182,846**	**313,539,685**
Total receivables from exchange transactions	**341,784,568**	**413,407,070**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Cash generated from operations

	FY 2020-2021	FY 2019-2020
	KES	KES
Surplus for the year before tax		
Adjusted for:		
Depreciation		
Gains/losses on disposal of assets		
Interest income	10,941,822	12,528,748
Finance cost	(4,089,074)	(4,643,309)
Working Capital adjustments		
Increase in inventory		
Increase in receivables		
Increase in payables		
Net cash flow from operating activities	**6,852,748**	**7,885,439**

Other Disclosures

County Assembly of Nakuru within the financial year 2021/2022 will make payment of Ksh 48 million relation to withholding taxes for car grant.