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REPORT

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BY:

Deputy leader majority
Hon Owen Bayart

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Enlaysia muruki

OF

THE AUDITOR-GENERAL

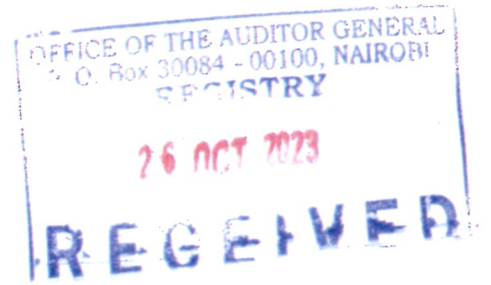
ON

MANAGEMENT AND SUPERVISION FUND

**FOR THE YEAR ENDED
30 JUNE, 2023**

**STATE DEPARTMENT FOR
CO-OPERATIVES**





**MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM
ENTERPRISES (MSMEs) DEVELOPMENT**

STATE DEPARTMENT FOR COOPERATIVES

MANAGEMENT AND SUPERVISION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

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

*State Department for Cooperatives
Management and Supervision Fund
Annual Report and Financial Statements for the year ended 30th June 2023*

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1.

1. KEY ENTITY INFORMATION AND MANAGEMENT

The Management & Supervision Fund was established Under Co-operatives Societies Rule No. 18 and 19. The Fund is managed by the department for Co-operatives as authorized by the Co-operatives Societies Act 2004 and the Co-operatives Societies Rules.

Co-operatives Societies Act 2004 and the Co-operatives Societies Rules 18;

- (1) There is hereby established a fund to be known as the Management and Supervision Fund and every registered society shall, unless exempted in writing by the Commissioner, pay into it annually an audit and supervision fee.
- (2) The Commissioner shall administer the Fund and the balance of the Fund shall be kept with the accounting officer who shall be authorized to accept receipts and to make payments in accordance with the provisions of these Rules: Provided that the accounting officer shall not make any payment from the Fund unless he holds a cash balance on behalf of the Fund sufficient to cover the payment.
- (3) **The receipts to the fund shall consist of-**
 - (a) Fees under sub-rule (I) as fixed by the Commissioner for the better carrying out of the provisions and purposes of section 25 of the Act;
 - (b) ten per centum of the audit fees paid by the society to the auditor in respect of the annual accounts in question; and (c) fees paid under rules 16 and 17 (2).
- (4) **Expenditure charged to the Fund may include expenditure for-**
 - (a) Purchases of specialized stationery, office machinery and equipment for use by the Commissioner in the administration of co-operative societies and the Fund;
 - (b) Repairs of office machinery and equipment purchased from the management fund;
 - (c) temporary extra clerical assistance, authorized by the Commissioner as necessary from time to time in connection with the audit and supervision of co-operative societies;
 - (d) Payment of professional audit fees which shall be subsequently recovered wholly or in part from co-operative societies concerned;
 - (e) liquidation expenses including legal fees and costs where no money~ are available to the liquidator and where in the opinion of the Commissioner such expenditure should be incurred for the proper carrying out of the liquidation; and
 - (f) Any other expenditure approved by the Treasury including the investment of funds surplus to requirements.

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Accounts of the Fund 19;

(1) Fifty per cent of the annual receipts received by the Fund shall be payable half yearly to the Government as appropriations-in-aid.

(2) All expenditure from the Fund shall be supported by vouchers and authorized by the Commissioner in the same manner as for other Government expenditure.

(3) The Fund shall be audited annually by the Auditor General.

a) Principal Activities

The principal activity of the fund is the sale of co-operatives audit services and annual registration of auditors.

Vision

“The fund of choice for the promotion of accountability and audit in Co-operatives societies.

Mission

To mobilize funds from Co-operatives societies and other sector players and utilize the same towards the attainment of a globally competitive and sustainable co-operative sector.

Core Values

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

b) Key Management

Ref	Name	Position
1	Patrick K. Kilemi	Accounting Officer
2	David K. Obonyo	Commissioner for Co-operatives
3	Javel Murira	Director Co-operatives Audit (AIE Holder)
4	Margaret Nyaywera	Deputy Accountant General

c) Registered Offices

P.O. Box 30547-00100
NSSF Building
Bishop Road
Nairobi, Kenya.

d) Fund Contacts

Telephone: (254) 020-273531-9
E-mail: ps.ushirika@gmail.com
Website: www.ushirika.go.ke

e) Fund Bankers

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya.

Note: No other Commercial Banks

f) Independent Auditors

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

g) Principal Legal Adviser

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

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2. FUND ADMINISTRATION COMMITTEE

Management and Supervision fund has no board of trustees only a management team under Co-operatives director of Audit in the office of Commissioner for Co-operatives.

Ref	Name	Position
1	Patrick K. Kilemi	Accounting Officer
2	David K. Obonyo	Commissioner for Co-operatives
3	Javel Murira	Director Co-operatives Audit (AIE Holder)
4	Margaret Nyaywera	Deputy Accountant General

3. STATEMENT OF PERFORMANCE AGAINST ENTITY'S PREDETERMINED OBJECTIVES

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year the accounting officer when preparing financial statements include a statement of the national government entity's performance against predetermined objectives.

The key development objectives of the Management and Supervision Fund (Co-operative Accounts and Audit) are to:

- a) Implement policy and operational guidelines on Co-operative Audit services
- b) Regulate and monitor compliance with the provisions of the Co-operative Societies Act and subsidiary legislation
- c) To promote good governance in co-operative societies
- d) To ensure effective and efficient service delivery

Progress on attainment of Strategic development objectives

Below we provide the progress on attaining the stated objectives:-

ernance untability	Implement policy and operational guidelines on Co-operative Audit services	Guidelines were issued to cooperative societies	Two technical updates completed and signed	Developed two technical updates and achieved the targets by 100%
	Regulate and monitor compliance with the provisions of the Co-operative Societies Act and subsidiary legislation	Promotion of accountability through registration of 4420 Audited accounts	4734 audited accounts	Registered 4734 audited accounts against a target of 3800, hence a score of 98%.
		Regulation of audit services and promoted ethical practices	360 Audit firms were registered and approved to audit cooperatives	Approved list of auditors for 2022-2023 done
		Enforcement of the legal requirements on audit	Compliance audit of societies in the 47 Counties	Compliance audits were carried out in the Counties and reports issued
	To promote good governance in co-operative societies	Promotion of accountability during liquidation of societies	Reviewed liquidators' schemes of distribution and society status	Review of liquidated sacco's ongoing

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		Inquiry and investigation of suspected mismanagement and fraud	Cooperative Auditors took part in 14 inquiries and inspections of societies	Cooperative auditors were assigned inspection and inquiry work in 14 societies
	To ensure effective and efficient service delivery	Lender services to the public in accordance with Citizen Service Delivery Charter	Attendance to public requests and complaints	Attended to all the customer requests and provided the necessary assistance.

4. MANAGEMENT TEAM



Principal Secretary Patrick K. Kilemi

Patrick Kiburi Kilemi is the Principal Secretary (PS) in the Ministry of Co-operatives and Micro, Small & Medium Enterprises (MSMEs) Development, State Department for Co-operatives. His career spans over 20 years in sales, marketing, commercial planning and pricing experience in the petroleum industry in Kenya and the East and Central African region mainly with International Oil majors Total Kenya Limited (11 years), Chevron (Caltex) Kenya Limited (4 years) and Mobil Oil Kenya Limited (3 years). He holds a Masters Degree in Economics and Bachelors of Arts Degree in Economics from The University of Nairobi. He is a CPA (K) finalist.



Mr. David K. K. Obonyo

Commissioner for Co-operative Development

The Commissioner for Co-operatives Development and currently the Head Finance and Marketing Division. Holds a Masters of Arts Rural Economics and Co-operation (Bundelkhand University, India); Bachelor of Arts, Economics, Sociology and Political Science and Diploma Industrial Relations. Has 24 years' service in the Co-operatives Administration serving as Ag. Secretary Ethics Commission for Co-operatives Societies (ECCOS), Head of Department, Co-operatives Finance and Banking, Co-operatives County commissioner, Provincial Co-operatives Officer and District Co-operatives Officer. A member of Kenya Society for Professional Co-operators. (KSPC).



CPA Margaret Nyaywera

CPA Margaret Nyaywera is the Deputy Accountant General for the State Department. She is a holder of MBA(Finance) from Moi University and a CPA (K).

Her main role includes management, monitoring and reporting use of resources, clear up audit queries, establish effective internal controls, improve expenditure management and transfers, banking arrangements and complete financial statements on time.



Javel Muthee Murira

Director Co-Operative Audit.

He holds a MBA in Finance, B.A in economics and sociology. KACE and KCE. He is a professional Accountant; He is in currently Director of Co-operatives Audit State department for Co-operatives. He has worked in various government units from the year 1994 to date. He is a member of ICPAK and Institute of internal auditors (IIA).

5. CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE

The fund has throughout the FY 2022/2023 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 management are 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.

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 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.

Management Team

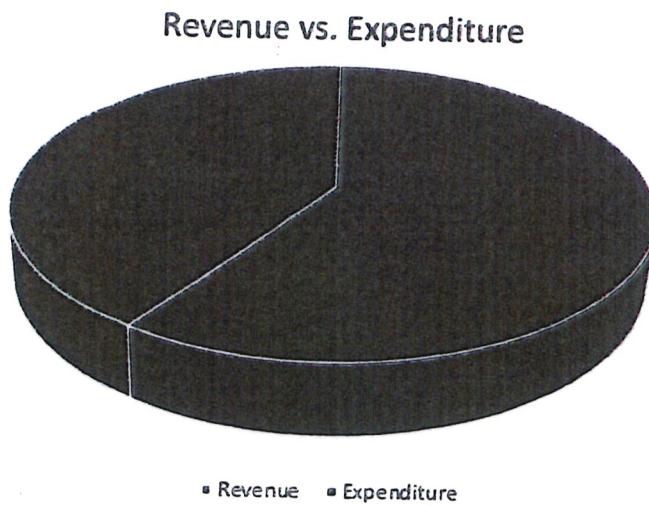
The management team headed by the Fund Administrator implements the board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the board's objectives are achieved effectively and efficiently.

Auditor

The fund is audited by the Auditor-General.

6. MANAGEMENT DISCUSSION AND ANALYSIS

The fund earned revenues amounting to KShs.16.825 M were collected from audit and supervision and inquiry fees. The total expenditures during the period amounted to KShs.11.693 M out of which were general expenses and AIA transfers.



During the reporting period the fund has complied with all statutory requirements. The institution has no non-compliance that may expose it to potential contingent liability.

With the expected operationalization of the new National Cooperative Policy and finalization of the new Cooperative Bill, the management and supervision fund revenue streams will be streamlined with that at the county level.

Key challenges:

The activities for the year slowed down because of the Covid-19 Pandemic which affected the business because of the restrictions in movement, lockdowns, ban on gatherings and many people working from home. The restrictions affected the general performance of the economy which in turn reduced sale of cooperative shares and society property due to limited liquidity.

8. REPORT OF THE FUND ADMINISTRATOR

The fund administrator submits the report together with the audited financial statements for the year ended June 30, 2023 which show the state of the Fund affairs.

Entity's compliance with statutory requirements

During the reporting period the fund has complied with all statutory requirements. The institution has no non-compliance that may expose it to potential contingent liability.

Key projects and investment decisions the entity is planning/implementing

There is no any key project or investment the fund is planning to implement.

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.

Major risks facing the entity

The fund is exposed to liquidity risk. The fund overall risk management framework focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risk on its performance by setting acceptable levels of risk.

Material arrears in statutory/financial obligations

During the reporting period the Fund has no material arrears and any financial obligations

The entity's financial probity and serious governance issues

During the reporting period the fund has no case of financial improbity reported and no governance issues were raised.

Principal Activities

The principal activity of the fund is the sale of co-operatives audit services and annual registration of auditors.

Performance

The fund earned revenues amounting to KShs.16.825M from audit supervision fees. The total expenditures during the period amounted to KShs.11.693M which were general expenses and AIA transfers.

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Administrator of the Fund is the Director Audit Services under the Commissioner for Cooperatives as shown in page 5.

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.

Conclusion

Good progress was made in the financial year and the momentum has been created to enable Management and Supervision Fund continue on a trajectory into prosperity. We have identified gaps and areas to improve on in the subsequent years.

I take this opportunity to express my sincere gratitude and appreciation to the State Department for Co-operatives, Co-operative Auditors, and other Stakeholders, for their continued support which made us achieve these results.

I look forward to your continued support in the years to come.

Signed: _____

David K. Obonyo

Commissioner for Co-operative Development.

9. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Section 84 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a national public fund established by the constitution or an Act of Parliament shall prepare financial statements for the fund in a form prescribed by the Accounting Standards Board.

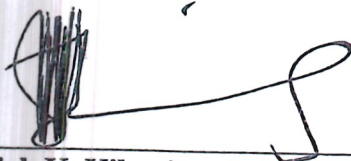
The Administrator of the Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2023. This responsibility includes: (i) maintaining adequate 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 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, 2023, 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 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 Accounting officer on 30/9 September 2023 and signed by:

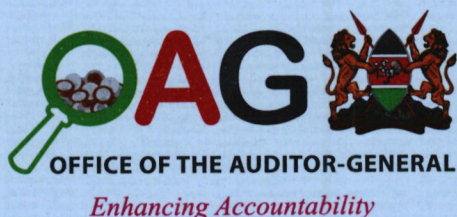


Patrick K. Kilemi
Principal Secretary

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REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON MANAGEMENT AND SUPERVISION FUND FOR THE YEAR ENDED 30 JUNE, 2023 - STATE DEPARTMENT FOR CO-OPERATIVES

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 the 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 control,s 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 controls, 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

Qualified Opinion

I have audited the accompanying financial statements of Management and Supervision Fund set out on pages 1 to 13 , which comprise of the statement financial position as at

Report of the Auditor-General on Management and Supervision Fund for the year ended 30 June, 2023 - State Department for Co-operatives

30 June, 2023, and the statement of financial performance, statement of changes in net assets, statement of cash flows, statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other important disclosures in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Management and Supervision Fund as at 30 June, 2023, 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. Inaccuracy of Cash and Cash Equivalents Balance

The statement of financial position and as disclosed and Note 4 to the financial statements reflects cash and cash equivalents balance of Kshs.3,296,598. However, the balance differs from the trial balance amount of Kshs.7,966,439 resulting in unreconciled balance of Kshs.4,669,841. Further, the cash and cash equivalent opening balance is reflected as negative Kshs.2,133,610 against the audited balance of Kshs.2,536,210 resulting in unreconciled variance of Kshs.4,669,840. In addition, the balance is maintained in the State Department for Co-operatives Deposit account contrary to Section 68(2)(b) of the Public Finance Management Act, 2012 which requires an accounting officer to ensure that the entity keeps financial and accounting records that comply with the Act.

In the circumstances, the completeness and accuracy of the reported cash and cash equivalent balance of Kshs.3,296,598 could not be confirmed.

2. Unsupported Debtors Balance

The statement of financial position and as disclosed in Note 7 to the financial statements reflects management and supervision fees-debtors balance of Kshs.10,219,347. However, the balance has not been supported by detailed analysis of the debtors. Further, the debt which has been outstanding for the last ten (10) years has been classified under current assets contrary to the provisions of paragraph 76(c) of the International Public Sector Accounting Standards No.1 which states that an asset shall be classified as current when it is expected to be realized within twelve months after the reporting date. Similarly, management did not explain why these debts have not been collected and what effort is doing to ensure full recovery of the debts. Further no debt analysis was provided to support the debt balance.

In the circumstances, the completeness, accuracy and recoverability of the debtors balance of Kshs.10,219,347 could not be confirmed.

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

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness, Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management had not resolved all the issues or given any explanation for failure to implement the recommendations.

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, 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. Non-Compliance with Co-operative Societies Rules

The statement of financial performance and as disclosed under Note 1 to the financial statements reflects receipts of Kshs.12,636,123 in respect of audit and supervision fees. Included in the amount is Kshs.1,050,000 relating to registration fees of three hundred and sixty (360) auditors. However, review of the records revealed that the Fund did not gazette the auditors contrary to the provisions of Rule No.16(2) of the Co-operative Societies Rules, 2004 which states that the Commissioner may cause the list of auditors approved to audit Co-operative Societies to be Published in the Kenya Gazette.

In the circumstances, Management was in breach of the law.

2. Failure to Remit Appropriation- In-Aid to The National Treasury

The statement of financial performance reflects total revenue from exchange transactions of Kshs.16,825,623. Examination of available records revealed that the Fund remitted Kshs.4,432,804 to The National Treasury as Appropriation In-Aid (AIA) during the year under review representing 26% of the annual receipts' contrary to the provision of Rule No. (19)(1) of the co-operative Societies Rules, 2004 which states that fifty percent of the annual receipts received by the Fund shall be payable half yearly to the Government as appropriations -in-aid.

In the circumstances, 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 which 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 standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, 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 such internal controls 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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall 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 review of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls 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 controls.
- 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 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that are identified during the audit.

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

22 December, 2023

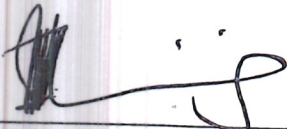
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11. FINANCIAL STATEMENTS

11.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2023.

Revenue from non-exchange transactions			
Audit and supervision fees	1	12,636,123.25	12,275,672.00
Inquiry Fees	1	4,189,500.00	-
Total Revenue		<u>16,825,623.25</u>	<u>12,275,672.00</u>
Expenses			
Transfers AIA	2	4,432,804.25	8,137,836.00
General expenses	3	7,260,510.00	3,747,900.00
Total expenses		<u>11,693,314.25</u>	<u>11,885,736.00</u>
Surplus/(deficit) for the period		5,132,309.00	389,936.00

The notes set out form an integral part of these Financial Statements. The entity financial statement was approved on 30/9 September 2023 and signed by:


Patrick K. Kilemi
Principal Secretary


CPA Margaret Nyaywera
Deputy Accountant General
ICPAK Number: 5429


Javel Murira (CPA)
Director for Co-operative Audit

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11.2. STATEMENT OF FINANCIAL POSITION AS AT 30th JUNE 2023

Assets			
Current assets			
Cash and cash equivalents	4	3,296,598.60	(2,133,610.40)
Management & Supervision fees- Debtors	7	10,219,347.00	10,219,347.00
Non-current assets			
Property, plant and equipment	5	375,700.00	673,600.00
Total assets		13,891,645.60	8,759,336.60
Liabilities			
Payables		-	-
Net Assets		13,891,645.60	8,759,336.60
Financed by;			
Management & Supervision Fund Capital	6	8,759,336.60	13,039,241.00
Prior year adjustment	8	-	(4,669,840.00)
Accumulated surplus/deficit		5,132,309.00	389,936.00
Total equity		13,891,645.60	8,759,336.60

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 _____ September 2023 and signed by:



Patrick K. Kilemi
Principal Secretary



CPA Margaret Nyaywera
Deputy Accountant General
ICPAK Number: 5429



Javel Murira (CPA)
Director for Co-operatives Audit

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11.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30th JUNE 2023.


Balance bf July 1st, 2021	18,894,544.00	(5,855,303.00)	13,039,241.00
Accumulated Surplus/(deficit) for the period	-	389,936.00	389,936.00
Prior Year Adjustment	-	(4,669,840.40)	(4,669,840.40)
Balance as at 30 June 2022	18,894,544.00	(10,135,207.40)	8,759,336.60
Surplus/(deficit) for the period	-	5,132,309.00	5,132,309.00
Funds received during the year	-	-	-
Balance as at 30 June 2023	18,894,544.00	(5,002,898.40)	13,891,645.60


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11.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30th JUNE 2023.

Cash flows from operating activities			
Receipts			
Audit and Supervision fees	1	12,636,123.25	12,275,672.00
Inquiry fees	1	4,189,500.00	-
Total Receipts		<u>16,825,623.25</u>	<u>12,275,672.00</u>
Payments			
Transfer to treasury-AIA	2	4,432,804.25	8,137,836.00
General expenses	3	7,260,510.00	3,747,900.00
Total Payments		<u>11,693,314.25</u>	<u>11,885,736.00</u>
Net Cash flow from operations		<u>5,132,309.00</u>	<u>389,936.00</u>
Add Depreciation	5	297,900.00	297,900.00
Adjust for changes in receivables/payables/Prior Year	8	-	(4,669,840.40)
Net cash flows from operating activities		<u>5,430,209.00</u>	<u>(3,982,004.40)</u>
Purchase of property, plant, equipment and intangible assets		-	749,500
Net cash flows used in investing activities		-	749,500
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		<u>5,430,209.00</u>	<u>(4,731,504.40)</u>
Cash and cash equivalents at 1 July bf	4	(2,133,610.40)	2,597,894
Cash and cash equivalents at 30 June	4	3,296,598.60	(2,133,610.40)

The entity financial statements were approved on 30/9 September 2023 and signed by:


Patrick K. Kilemi
Principal Secretary


Name: CPA Margaret Nyaywera
Deputy Accountant General
ICPAK Number: 5429


Javel Murira (CPA)
Director for Co-operatives Audit

11.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2023.

Revenue	KShs	KShs	KShs	KShs	KShs	KShs	KShs
Audit and Supervisory Fee	12,950,000	-	12,950,000	12,636,123	(313,877)	97.58%	
Inquiry Fees				4,189,500	4,189,500	0%	
Annual Auditors Registration fees(350 audit firms @sh 3,000)	1,050,000		1,050,000	-	(1,050,000)	0%	
Total income	14,000,000		14,000,000	16,825,623			
Expenses							
Transfer-AIA	7,000,000		7,000,000	4,432,804	2,567,196	63.33%	
Purchase of stationery and printing	1,900,000		1,900,000	770,000	1,130,000	40.53%	
Purchase of office equipment, furniture and machinery	500,000		500,000	-	-	0%	
Maintenance of office equipment	300,000		300,000	-	-	0%	
Hire of temporary extra clerical services	100,000		100,000	-	-	0%	
Payment of audit fees	100,000		100,000	176,800	(76,800)	176.80%	
Inquiry Expense				4,535,210	(4,535,210)		

Liquidation expenses	100,000		100,000	-	(100,000)	0%
Training and Development expenses	500,000		500,000	-	(500,000)	0%
Hospitality	-		-	1,136,800	150,000	100%
Travelling and Subsistence	3,500,000		3,500,000	343,800	3,156,200	9.82%
Total expenditure	14,000,000		14,000,000	11,395,414	2,604,586	81.40%
Surplus/Deficit	-		-	5,430,209		

12. 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) Accrual. 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

3. Revenue recognition

i) Revenue from non-exchange transactions

Audit and supervision fees

Audit and supervision fees is recognised when audited accounts is presented to commissioner for approval or registration are billed for payments. Currently no registration of accounts is allowed without full payments having been done.

The income relates to

1. 10% of audit fees from private auditors
2. 30% of audit and supervision fees from county Co-operative Auditors
3. Annual registration fees from private audit firms at Ksh.3000 per year.

4. Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

The assets have been depreciated as furniture and fittings at 20% and computers at 33% on a reducing balance basis.

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5. Fund surplus fees

Fund surplus are realised from excess income over expenditure, the surplus is carried forward to the next financial year.

6. 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.

7. Cash and cash equivalents

. Bank account balances include amounts held at the Central Bank of Kenya at the end of the financial year.

8. Comparative figures

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

9. Events after the reporting period

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

10. Currency

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

11. Significant judgments and sources of estimation uncertainty

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

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

Useful lives and residual values

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

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- 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

12. Provisions

Provisions were raised and management determined an estimate based on the information available.

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.

13. Related Party Relationships

The Fund has a related party relationship with the State Department for Co-operatives
Nature of related party relationships.

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13. NOTES TO THE FINANCIAL STATEMENTS

1. Inquiry and Audit Fees

Audit & Supervision Fees	12,636,123.25	12,275,672.00
Inquiry fees	4,189,500.00	-
Total	<u>16,825,623.25</u>	<u>12,275,672.00</u>

2. Transfer to Treasury-AIA

Transfer to treasury-AIA	4,432,804.25	8,137,836.00
Total	4,432,804.25	8,137,836.00

3. General expenses

Inquiry Expense	4,535,210.00	-
Daily Subsistence Fee	343,800.00	3,013,600.00
Annual Subscription Fee	176,800.00	196,400.00
General Office Supplies	770,000.00	-
Hospitality	1,136,800.00	150,000.00
Maintenance of office equipment	-	90,000.00
Depreciation and amortization costs	297,900.00	297,900.00
Total	7,260,510.00	3,747,900.00

4. Cash and cash equivalents

Cash at bank	3,296,598.60	(2,133,610.40)
Total cash and cash equivalents	3,296,598.60	(2,133,610.40)

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5. Property, plant and equipment

Cost	Kshs	Kshs	Kshs
Cost as at June 2021	740,000.00	337,000.00	1,077,000.00
Additions	749,500.00	-	749,500.00
Disposals	-	-	-
Transfers	-	-	-
Cost as at June 2022	1,489,500.00	337,000.00	1,826,500.00
Additions	-	-	-
Disposals	-	-	-
Transfers	-	-	-
Cost as at June 2023	1,489,500.00	337,000.00	1,826,500.00
Depreciation			
Depreciation as at June 2021	518,000.00	337,000.00	855,000.00
Depreciation for the year	297,900.00	-	297,900.00
Adjustments	-	-	-
Depreciation as at June 2022	815,900.00	337,000.00	1,152,900.00
Depreciation for the year	297,900.00	-	297,900.00
Adjustments	-	-	-
Depreciation as at June 2023	1,113,800.00	337,000.00	1,450,800.00
Net Book Value			
NBV as at June 2021	222,000.00	-	222,000.00
NBV as at June 2022	673,600.00	-	673,600.00
NBV as at June 2023	375,700.00	-	375,700.00

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6. Management & Supervision Fund-Capital

Management & Supervision Fees-Debtors	10,219,347.00	10,219,347.00
Cash at Bank/PMG	3,296,598.60	(2,133,610.40)
Assets NBV as at June	375,700	673,600.00
Total Capital	13,891,645.60	8,759,336.60

7. Management & Supervision Fees-Debtors.

Annexure: *Detailed List Attached.*

8. Adjustment for changes in Receivables-payables/Prior year balances

Closing Balances as per the cashbook	3,296,598.60	27,328,766.20
Under/overstated	-	-
Opening balances	3,296,598.60	27,328,766.20

Balances are as follows: Detailed Breakdown attached

Balances as per the Cashbook Items		Amounts	Amounts
Management Fund			3,296,598.60
General deposits (retentions)	Promin Consultants	2,384,910.00	
	Questa Intersol Management Ltd	735,300.00	
	Systematica Africa	1,531,965.00	4,652,175.00
Totals			7,948,773.60

Item	Amount
General deposits	4,652,175.00
Under/Overstated	17,665.40
Prior Year Adjustment	4,669,840.40

14. 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.

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Management Fund Manual Trial Balance

Accounts	Dr	Cr
Audit and Supervision		12,636,123.25
Inquiry Fees		4,189,500.00
Fund Capital		13,429,177.00
Cash/Bank	7,966,439.00	
AIA Transfers	4,432,804.25	
Hospitality	1,136,800.00	
Inquiry Expense	4,535,210.00	
Daily Subsistence Allowance	343,800.00	
Annual Subscription Fee	176,800.00	
General Office Supplies	770,000.00	
Depreciation	297,900.00	
Debtors	10,219,347.00	
PPE	375,700.00	
=	30,254,800.25	30,254,800.25