

REPUBLIC OF KENYA



Paper laid by the
Hon. Aden Duale, Leader
of Majority Party on
Wednesday, 4/3/2015 a
(Afternoon sitting) RJK

KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
PARLIAMENTARY MORTGAGE SCHEME
FUND**

**FOR THE YEAR ENDED
30 JUNE 2014**



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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON PARLIAMENTARY MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Parliamentary Mortgage Scheme Fund set out on pages 4 to 10, which comprise the statement of financial position as at 30 June, 2014, the statement of financial performance, statement of changes in net assets and the statement of cash flows for the year then ended together with 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 8 of the Public Audit Act, 2003. 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS) Accrual Basis and Public Finance Management Act, 2012 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 7 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 9 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

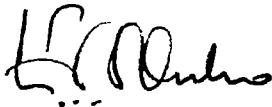
An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement

of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Parliamentary Mortgage Scheme Fund as at 30 June 2014, and of its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS) Accrual Basis and comply with Public Finance Management Act, 2012, and Parliamentary Mortgage (Staff and Members) Regulations 2013.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

20 January 2015



PARLIAMENTARY SERVICE COMMISSION

PARLIAMENTARY MORTGAGE SCHEME FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2014

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

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I. KEY FUND INFORMATION AND MANAGEMENT

(a) Background information

The Parliamentary Mortgage Scheme Fund was established in 2002 through the Legal Notice No. 117, the Exchequer and Audit (Parliamentary Mortgage Scheme Fund) Regulations, 2002 with the objective of providing a loan scheme for the purchase of residential property by members. This objective clause was amended in 2003 to also include loans for the development of such residential property.

The Fund was established with an initial capital of ninety million (ksh. 90,000,000.00) paid out of the vote of National Assembly for the year 2001/2002. This has since been raised to ksh.2 billion in accordance with the amendments to the enabling Legislation enacted in 2003 and 2008. The Legal Notice No. 1 of 27th January 2012 made members of 10th Parliament eligible for further loan not exceeding ksh. 5 million repayable on or before the 30th June 2012 or two months before the general elections whichever date is later. However these regulations have been reviewed under the Public Finance Management Act, 2012 – Parliamentary Mortgage (Staff) Scheme Fund and Parliamentary Mortgage (Members) Scheme Fund as Legal Notices No. 18 and 67 of 2013 respectively.

The Fund is administered by a Loan Management Committee chaired by the Vice chairperson of the Parliamentary Service Commission. The Committee is charged with the responsibility of processing of loans from applicants in accordance with laid down regulations, liaising with housing company (if any) to set up a revolving Fund for the disbursement of loans and supervising the day-to-day operations of the Fund. The Officer Administering the Fund is responsible for the day-to-day operations

(b) Principal Activities

The principal activity of the Fund is to facilitate acquisition of residential property for Members of National Assembly, The Senate and staff of Parliamentary Service Commission by providing a loan scheme for the purchase and/or development, renovation or repairs of the property by members of the scheme; and to perform other functions necessary for the well being of the honourable Members and staff.

(c) Key Management

The Scheme Fund's day-to-day operations management is under the Clerk of National Assembly as the Officer Administering the Fund who shall designate and appoint such staff as may be necessary to assist him/her in the administration of the Fund.

(d) Fiduciary Management

The Loans Management Committee Members who served during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were:

1. **Hon. Beth W. Mugo** - Chairperson / Vice Chairman PSC
2. Hon. Adan Keynan - Member / Chairman of Staff welfare
3. Hon. Sammy Leshore - Member / Chairman of Members welfare
4. Hon. Regina Nyeris - Member / Commissioner - PSC
5. Hon. Johnstone Muthama - Member / Minority Chief Whip of the senate
6. Hon. Katoo ole Metito - Member/ Majority Chief Whip of National Assembly
7. Hon. Beatrice Elachi - Member/ Majority Chief Whip of the senate
8. Hon. Gideon Mung'aro - Member/ Minority Chief Whip of National Assembly
9. Mr. Jeremiah M. Nyegenye - Member / Clerk of the Senate
10. Mr. Clement Nyandiere - Member / Director General
11. Mrs. Rebecca Tonkei - Member / Staff- elected representative

(e) Headquarters

Parliament Buildings
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Nairobi, KENYA

(f) Contacts

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E-mail: clerk@Parliament.go.ke,
Website: www.Parliament.go.ke

(g) Bankers

1. Cooperative Bank of Kenya Limited,
Parliament Road Branch,
P.O. Box 5772 – 00200,
Nairobi, KENYA

(h) Independent Auditors

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

(i) Principal Legal Adviser

State Law Office
Harambee Avenue
P.O Box 40112
City Square 00200
NAIROBI

II. REPORT OF THE OFFICER ADMINISTERING THE FUND

Parliamentary Mortgage Scheme Fund activities are to facilitate purchase and/or improvement of residential property for Members of National Assembly, The Senate and staff of Parliamentary Service Commission by providing a loan scheme for the purchase, group life assurance and fire insurance to members of the scheme; and to perform other functions necessary for the well being of the honourable Members and staff. During the reported period the Fund recovered and cleared the outstanding loans by former Members of Parliament, also approved and fully processed loans for 260 honourable Members (approximately 63%) for 11th Parliament.

For the financial year 2013/2014 the Funds activities included application for mortgages, approval and disbursement of the loans which started on moderate pace. Among other factors, was due to delay in receipt of the exchequer to increase the Fund's capital to accommodate the increased number of honourable Members from 224 in 10th Parliament to 418 in the 11th Parliament and increased staff of Parliamentary Service Commission. Most members had applications ready for approval awaiting receipt of exchequer. This led to the challenge of accessing maximum entitlement of Kshs. 20 million since the repayment is limited to the payroll check off system, thus lacking the ability to repay the loan on or before the end of Parliamentary term. The staff members have continued to access the loan as per job scale which is repayable within maximum of 15 years or earlier depending on period remaining to retirement.

However, it is expected that the Fund will be more active in the subsequent financial years, considering that the newly recruited staff members of Parliamentary Service Commission will have been confirmed to permanent and pensionable terms thus eligible for the mortgage facility, while Members applications will decline due to parliamentary time remaining but an accelerated repayment to enable timely repayment leading to increased cashflows, with current repayment being ksh.139 million. However, funding for the staff applications will continue being budgeted for in subsequent financial years to enable them access the facility considering the high number of recruited at once and at enhanced loan amounts.

III. REPORT OF THE PARLIAMENTARY MORTGAGE FUND

The Officer Administering Parliamentary Mortgage Scheme Fund submits his report and financial statements for the year ended June 30, 2014 which show the state of the Fund affairs.

Principal activities

The principal activities of the Parliamentary Mortgage Scheme Fund continue to be provision of a loan scheme for the purchase and development of land and residential property, renovations or repairs of residential property by members of the scheme as per the objective and purpose of the scheme.

Results

The results of the Parliamentary Mortgage Scheme Fund for the year ended June 30, 2014 are set out on page 4 – 9

Management

The members of the Parliamentary Loan Management Committee who served during the year are shown on page 1. In accordance with the laid down regulations, the committee members retire by vacation of office through dissolution of Parliament and constitution of members of Parliamentary Service Commission after an election, while staff representatives is by virtue of office held and election by staff members when need arises.

Auditors

The Auditor General is responsible for the statutory audit of the Parliamentary Mortgage Scheme Fund in accordance with the Section 24(3) of the Public Finance Management (PFM) Act, 2012 and Parliamentary Mortgage (staff and members) Regulations 2013, section (18).

IV. STATEMENT OF THE OFFICER ADMINISTERING FUND'S RESPONSIBILITIES

Section 24(3) of the Public Finance Management Act, 2012 require the Officer Administering Fund to prepare financial statements in respect of that the Parliamentary Mortgage Scheme Fund, which give a true and fair view of the state of affairs of the Fund at the end of the financial year/period and the operating results of the Fund for that year/period. The Officer Administering Fund is also required to ensure that the *Fund* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *Fund*. The Directors are also responsible for safeguarding the assets of the *Fund*.

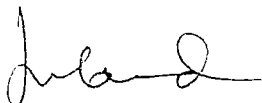
The Officer Administering the Fund is responsible for the preparation and presentation of the Parliamentary Mortgage Scheme Fund financial statements, which give a true and fair view of the state of affairs of the Scheme for and as at the end of the financial year ended on June 30, 2014. This responsibility 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 Officer Administering the Fund accept responsibility for the Schemes 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 Public Finance Management Act, 2012. The Officer Administering Fund is of the opinion that the Scheme's financial statements give a true and fair view of the state of Fund transactions during the financial year ended June 30, 2014, and of the Schemes financial position as at that date. The Officer Administering the Fund further confirm the completeness of the accounting records maintained for the Scheme, which have been relied upon in the preparation of the Scheme financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Officer Administering the Fund to indicate that the Scheme 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 Parliamentary Mortgage Scheme Fund financial statements were approved by the Officer Administering the Fund on 30th September, 2014 and signed on its behalf by:



Justin N. Bundi

Officer Administering the Fund/
Clerk, National Assembly

V. STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2014

	Note	2013-2014 Kshs	2012-2013 Kshs
Revenue			
Interest Earned	1	100,014,255.40	180,901,127.30
Total revenue		100,014,255.40	180,901,127.30
Expenses			
Staff Allowances		11,476,551.95	6,546,686.80
Committee Allowances		570,000.00	62,500.00
Computer Expenses		254,000.00	213,000.00
General Expenses	5	374,797.65	83,109.00
Total expenses		12,675,349.60	6,905,295.80
Surplus for the Period		87,338,905.80	173,995,831.50
Surplus Brought Forward		419,209,554.00	245,213,722.50
Surplus Carried Forward		506,548,459.80	419,209,554.00

The notes set out on pages 8 to 9 form an integral part of the Financial Statements

VI. STATEMENT OF FINANCIAL POSITION
As at 30 June 2014

	Note	2013-2014 Kshs	2012-2013 Kshs
Assets			
Current assets			
Debtors	3	3,863,074,146.00	855,825,195.70
Cash and Cash Equivalent	2	2,436,860,052.70	1,310,723,387.60
Investments		-	800,000,000.00
		<u>6,299,934,198.70</u>	<u>2,966,548,583.30</u>
Non-current assets			
		<u>-</u>	<u>-</u>
Total assets		<u>6,299,934,198.70</u>	<u>2,966,548,583.30</u>
Liabilities			
Current liabilities			
Loans Deposits	4	243,185,738.90	31,589,029.30
Undisbursed Loans		50,200,000.00	15,750,000.00
		<u>293,385,738.90</u>	<u>47,339,029.30</u>
Non-current liabilities			
		<u>-</u>	<u>-</u>
Total liabilities		<u>293,385,738.90</u>	<u>47,339,029.30</u>
Net Assets		<u>6,006,548,459.80</u>	<u>2,919,209,554.00</u>
Authorized and paid up capital		2,500,000,000.00	2,000,000,000.00
Additional Capital	6	3,000,000,000.00	500,000,000.00
Accumulated Surplus		<u>506,548,459.80</u>	<u>419,209,554.00</u>
		<u>6,006,548,459.80</u>	<u>2,919,209,554.00</u>

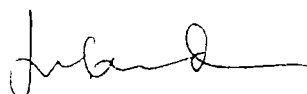
VII. STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2014

	CAPITAL FUND	ACCUMULATED SURPLUS	TOTAL
	Kshs	Kshs	Kshs
Balance as at 30 JUNE 2012	2,000,000,000.00	245,213,722.50	2,245,213,722.50
Surplus/(deficit) for the period	-	173,995,831.50	173,995,831.50
Additional Capital	500,000,000.00	-	500,000,000.00
Balance as at 30 JUNE 2013	2,500,000,000.00	419,209,554.00	2,919,209,554.00
Additional capital 2013/2014	3,000,000,000.00	-	3,000,000,000.00
Surplus for 2013/2014	-	87,338,905.80	87,338,905.80
Balance as at 30 JUNE 2014	5,500,000,000.00	506,548,459.80	6,006,548,459.80

VIII. STATEMENT OF CASH FLOWS

Note	2013-2014 Kshs	2012-2013 Kshs
<u>Cash flows from operating activities</u>		
Receipts		
Interest Income	100,014,255.40	180,901,127.30
	100,014,255.40	180,901,127.30
Payments		
Allowances	12,046,551.95	6,609,186.80
Computer Expenses	254,000.00	213,000.00
General Expenses	374,797.65	83,109.00
	12,675,349.60	6,905,295.80
Net cash flows from operating activities	87,338,905.80	173,995,831.50
<u>Cash flows from investing activities</u>		
(Increase)/Decrease in Accounts receivable	(3,007,248,950.30)	100,476,967.60
Increase in Accounts payable	246,046,709.60	15,673,654.65
Increase in investments	-	(800,000,000.00)
Net cash flows used in investing activities	(2,761,202,240.70)	(683,849,377.75)
<u>Cash flows from financing activities</u>		
Investment in Short term deposits	800,000,000.00	800,000,000.00
Additional Capital	3,000,000,000.00	500,000,000.00
Net cash flows used in financing activities	3,800,000,000.00	1,300,000,000.00
Net increase/(decrease) in cash and cash equivalents	1,126,136,665.10	790,146,453.75
Cash and cash equivalents at 1 JULY 2013	1,310,723,387.60	520,576,933.85
Cash and cash equivalents at 30 JUNE 2014	2,436,860,052.70	1,310,723,387.60

The Financial Statements set out on pages 4 to 9 were signed on behalf of the Management by:



Justin N. Bundi
Officer Administering the Fund

Date..... 30/9/14

IX. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation – IPSAS 1

The Fund's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings (Ksh), 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. Summary of significant accounting policies

a) Revenue recognition

Interest income

Interest from loans is recognised when received to determine interest income each period.

b) Loans and receivables

Mortgage advanced to Honourable Members are recovered within the remaining period of their Parliamentary term While to staff members are recovered within the remaining period to retirement and a maximum of 180 months (15 years), whichever is lower at an interest rate of 3% per annum at a reducing balance.

c) Provisions – IPSAS 19

The Fund has not made any provisions on loans issued since the property is charged in favour of Parliamentary Service Commission, covered against fire and group life assurance, with prerogative to sell in case of default by a member of the scheme. This has however not been experienced since inception.

d) Nature and purpose of reserves

The surplus for the year is maintained as a revolving reserve to build up the Fund for future self sustaining account.

e) Changes in accounting policies and estimates – IPSAS 3

The Fund recognizes and adopts the current accrual basis of accounting method under IPSAS to comply with the new requirement.

f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits on call, 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 Cooperative Bank of Kenya at the end of the financial year.

g) Comparative figures

Where necessary comparative figures for financial years 2012/2013 and 2013/2014 have been amended or reconfigured to conform to the required changes in presentation.

h) Significant judgments and sources of estimation uncertainty – IPSAS 1

The preparation of the Fund's financial statements is in conformity with IPSAS in reporting amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period.

i) Subsequent events – IPSAS 14

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

j) Fund account

The authorized capital was increased by ksh. 3 billion during the year 2013/2014 to cater for the new Parliamentary term for National Assembly, the Senate and staff of the Commission

1. Finance income	2014	2013
	Shs	Shs
Interest from loans issued	74,106,370.40	22,439,760.05
Interest fixed deposits	25,907,885.00	153,448,533.25
	-	5,012,834.00
Total finance income	100,014,255.40	180,901,127.30

2. Cash and cash equivalents	2014	2013
	Shs	Shs
Bank	2,436,860,052.70	1,310,723,387.60
Short term deposits	-	800,000,000.00
Total cash and cash equivalents	2,436,860,052.70	2,110,723,387.60

3. Receivables from non-exchange contracts		
Current receivables	2014	2013
	Shs	Shs
Outstanding loans advanced as at 30 th June 2014	3,863,074,146.00	855,825,195.70
Total current receivables	3,863,074,146.00	855,825,195.70

4 Re-Fundable deposits from customers	2014	2013
	Shs	Shs
deposits	243,185,738.90	31,589,029.30
Undisbursed loans	50,200,000.00	15,750,000.00
Total deposits	293,385,738.90	47,339,029.30

5. General expenses	2014	2013
	Shs	Shs
Bank Charges	189,797.65	83,109.00
Safe purchase	185,000.00	-
Total General Expenses	374,797.65	83,109.00

6. Fund Account		
Balance b/f	2,500,000,000.00	2,000,000,000.00
Additional Capital	3,000,000,000.00	500,000,000.00
Paid up Capital	5,500,000,000.00	2,500,000,000.00

X. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The only matter raised during the financial year 2012/2013 accounts on outstanding mortgage by Member of Parliament amounting to ksh. 1,303,206.30 was duly repaid during the current financial year.



Justin N. Bundi
Officer Administering the Fund

Date..... 30/9/14