

REPUBLIC OF KENYA



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THE AUDITOR-GENERAL

ON

**OFFICE OF THE CONTROLLER OF
BUDGET STAFF MORTGAGE SCHEME**

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

OFFICE OF THE CONTROLLER OF BUDGET



OFFICE OF THE CONTROLLER OF BUDGET STAFF MORTGAGE SCHEME

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30TH JUNE, 2023

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

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1. Abbreviations, Acronyms and Glossary of Terms

A. Abbreviations and Acronyms

OCoB	Office of the Controller of Budget
CoB	Controller of Budget
OAG	Office of the Auditor General
SRC	Salaries and Remuneration Commission
KRA	Kenya Revenue Authority
CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
AWAK	Association of Women Accountants, Kenya
FCPA	Fellow of the Institute of the Certified Public Accountants of Kenya
CPA	Certified Public Accountant, Kenya
ICT	Information Communication Technology
HFCK	Housing Finance Corporation Kenya Limited
IPSAS	International Public Sector Accounting Standards
IFMIS	Integrated Financial Management Information System
NT	National Treasury
FY	Financial Year
P.A	Per Annum (p.a)
Q	Quarter
FBT	Fringe Benefit Tax
CoB Act	Controller of Budget Act, 2016
PFMA	Public Finance Management Act, 2012
PA Act	Public Audit Act, 2015
PPAD Act	Public Procurement and Asset Disposal Act, 2015
PFMR	Public Finance Management Reforms Secretariat
PFM(NG)R	Public Finance Management (National Government) Regulations, 2015
PPE	Property Plant & Equipment
PSASB	Public Sector Accounting Standards Board
SAGAs	Semi-Autonomous Government Agencies
CSR	Corporate Social Responsibility
Kshs.	Kenya Shillings

B. Glossary of Terms

Fiduciary management- Members of management entrusted directly with the responsibility and trust for the organisation financial resources.

2. Key Scheme Information and Management

a) Background information

The Office of the Controller of Budget (OCoB) is an independent office established under Article 228 of the Constitution. The core mandate of the Controller of Budget (CoB) is to oversee the implementation of the budgets of both the National and County governments by authorising withdrawals from public funds. The roles and functions of the CoB are further articulated in the Controller of Budget Act, 2016, PFM Act 2012 and the attendant Regulations. In particular, the CoB is mandated to: prepare, publish and publicize budget implementation reports within thirty days after the end of each quarter, conduct investigations on its own initiative or upon receipt of a complaint by a member of the public, undertake negotiations, conciliation and mediation, and resolve disputes involving budget implementation.

Further, the CoB regularly monitor, evaluate and make recommendations to both levels of Government, enforce budget ceilings set by Parliament and provide information to the public on budget implementation at both levels of Government. The CoB also has the mandate to advise Parliament when the Cabinet Secretary responsible for finance has stopped the transfer of funds to state organs or other public entities before such suspension can be lifted. In line with Section 5 of the CoB Act, 2016, the Controller of Budget seeks to, among other things, promote fiscal discipline and equitable allocation of available resources, whilst improving transparency and accountability in the budget implementation process.

The OCoB therefore promotes fiscal discipline and transparency by ensuring prudent and efficient use of public funds at both levels of government. Prudent financial management is fundamental to the realization of the OCoB mandates, the governments Bottom-Up Economic Transformation Agenda (BETA) and the overall development goals of the country.

OCOB Mortgage Scheme

The OCoB Staff Mortgage Scheme was established by and derives its authority and accountability from sections 24 and 84 of the Public Finance and Management (PFM) Act, 2012 and regulation 127 of the PFM (National Government) Regulations, 2015. The Scheme is wholly owned by the OCoB and is domiciled in Kenya.

The OCoB Staff Mortgage Scheme was established in FY 2018/19 as a revolving fund in line with the Salaries and Remuneration Commission (SRC) Circular Ref. No: SRC/ADM/CIR/1/13 Vol.

III (128), dated December 17, 2014, to provide a mortgage scheme for OCoB staff members to acquire a residential property.

Section 84 of the PFM Act, 2012, mandates the Administrator of a public fund to prepare the Annual Financial Statements of the Scheme. For proper Management of the Fund and as guided by the SRC in the circular under the reference above, the Controller of Budget developed Staff Mortgage Scheme Guidelines, 2018, which incorporated the benefit as contained in the SRC Circular and the requirements under the PFM Act, 2012 and PFM (National Government) Regulations, 2015 to guide in the operationalization of the Scheme. Arising from the guidelines, the Controller of Budget approved and adopted the OCoB Mortgage Scheme Guidelines, 2018, on 1st March, 2019.

The CoB appointed nine staff members from Corporate Services, Budget Implementation and Legal Directorates to serve on the OCoB Staff Mortgage Scheme Committee. The Committee's objectives are to coordinate and engage with the scheme managers. Notably, the Scheme's secretariat is drawn from the OCoB, whereas the role of Management and administrative services are under the Scheme Managers.

The Scheme was established with an initial amount of **Kshs. 50,000,000** paid out from the OCoB annual recurrent budget allocation for FY 2018/19 as a seed capital. This initial capital has since been enhanced through exchequer allocations and funding to **Kshs. 395,690,623** as at June 30, 2023. However, during the FY 2022/23 Kshs 100,000,000 was budgeted and approved but due to government austerity measures and budget rationalisation, the budget was reviewed downwards by **50.31%** to **Kshs. 49,691,117**.

In addition, **Kshs. 27,088,657.32** earned as interest income has been capitalised and credited to the mortgage account since inception.

b) Principal Activities

The principal activity/ of the Scheme is to provide mortgage facilities to OCoB staff for the sole purpose of:

- i) Purchasing an existing residential property
- ii) Purchase of land and construction

c) Staff Mortgage Scheme Administration Committee

S/No	Position	Name
1.	Chairperson	CPA Macklin Ogolla
2.	Vice Chairperson	Ms Irene Arimi
3.	Fund Administrator	CPA Pamela Okatch
4.	Member	CPA Mark Kipkoech
5.	Member	Ms Judith Muli
6	Member	Mr Hassan Sheikh
7	Member	Ms Winfred Njeri
8	Co-opted Member	CPA Cheboi Thomas
9.	Secretary	Mr Waweru Tuti

d) Key Management

SN	Position	Name
1	Fund Manager	Housing Finance Corporation, Kenya Limited
2	Fund Administrator	CPA Pamela Okatch
3.	Secretary	Mr. Waweru Tuti

e) Fiduciary Oversight Arrangements

The key management personnel who held office during the financial year ending June 30, 2023 and who had direct fiduciary responsibility were:

Ref	Position	Name
1.	Controller of Budget	FCCA Dr. Margaret Nyakang'o
2.	Chairperson	CPA Macklin Ogolla
3.	Administrator	CPA Pamela Okatch
4.	Secretary	Mr Waweru Tuti
5.	Scheme Manager	Housing Finance Corporation, Kenya Limited

f) Registered Offices

Entity Headquarters

Office of the Controller of Budget
Bima House 12th Floor, Harambee Avenue
PO Box 35616-00100
Telephone: (254) 020-2211068
E-mail: CoB@CoB.go.ke
Website: www.CoB.go.ke
Nairobi, Kenya.

g) Fund Contacts

Office of the Controller of Budget
Staff Mortgage Fund
P.O. Box 35616-00100
Telephone: +254 (0) 20 318939, 2211056
E-mail: CoB@CoB.go.ke
Website: www.CoB.go.ke

h) Fund Bankers

1. Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya
2. Housing Finance Company of Kenya Ltd
HFC Mortgage Division
Head Office: Rehani House, Kenyatta Avenue / Koinange Street
PO Box 30088-00100
Mobile number: 0709 438 000 & 0709 438 888
E-mail: customer.service@hfgroup.co.ke or mybank@hfgroup.co.ke

i) Independent Auditors

Auditor General.
Office of the Auditor General
Anniversary Towers, University Way
PO Box 30084-00100
Nairobi, Kenya

j) Principal Legal Adviser

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

3. Fund Administration Committee

FCCA Dr Margaret Nyakang'o - Controller of Budget



Dr Nyakang'o holds a Doctorate in Business Administration from the University of Liverpool, UK (2016). She also has an MBA in Strategic Management and a Bachelor of Commerce (Accounting) from the University of Nairobi. She is a Certified Public Accountant and a Member of Kenya's Institute of Certified Public Accountants.

Dr Nyakang'o is also an active member of the Women on Boards Network and a member of the Association of Women Accountants of Kenya (AWAK). Dr Nyakang'o is also a Certified Mediator and Coach.

CPA Macklin Ogolla-Director, Corporate Services



Mr Ogolla has over 29 years of professional experience in the public sector. Mr Ogolla has a Master of Business Administration from Moi University and a Bachelor of Science (Actuarial Mathematics) from the University of Nairobi.

In addition, Mr Ogolla has a Post-graduate Diploma in Finance from Maastricht. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Certified Investment and Financial Analysts (ICIFA).

Pamela Okatch - Chief Manager, Finance and Accounts

CPA. Okatch has over 16 years of professional experience in the public sector. She has a Master of Business Administration from the University of Nairobi and a Bachelor of Commerce (Finance) from the Catholic University of Eastern Africa. Mrs Okatch is a Certified Public Accountant and member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Association of Women Accountants of Kenya (AWAK).



Mr Mark Kipkoech - Chief Fiscal Analyst, County Governments



Mr Kipkoech has over 11 years of professional experience in the private and public sectors. He holds a Master of Arts (Economics) from the University of Nairobi and a Bachelor of Arts (Economics) from Kenyatta University.

Mr Kipkoech is a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Certified Public Secretaries of Kenya (ICPSK).

Ms Irene Arimi - Chief Manager, Human Resource Management



Ms Arimi has over 17 years of professional experience in the private and public sectors. She has a Master of Business Administration (MBA) from Kenya Methodist University, a Bachelor's degree in Human Resource Management from UNISA and a Certificate in Executive Human Resource Management from the Institute of Human Resource Management. Ms Irene is a member of the Institute of Human Resource Management.

Ms Judith Muli - Chief Manager, ICT

Ms Muli has over 16 years of professional experience in ICT practice in the private and public



sectors. She has a Master of Science (Information Systems) from the University of Nairobi, a Master of Business Administration (Strategic Management) from Moi University, and a Bachelor of Science (Mathematics) from the University of Nairobi. Judith is a member of the Computer Society of Kenya (CSK), ISACA, and Internet Society of Kenya (ISOC) and a Lister with Kenya ICT Action Network (KICTANet).

Mr Waweru Tuti - Manager, Legal Services



Mr. Tuti is an Advocate of the High Court of Kenya and holds a Post-graduate Diploma in law from the Kenya School of Law and a Bachelor of law (LLB) Degree from the University of Nairobi. He is a member of the Law Society of Kenya (LSK) and an Associate Member of the Chartered Institute of Arbitrators (CI Arb- Kenya). He is also a Member of the International Association for Public Participation.

Mr Tuti has over 12 years of experience in the legal profession. Previously, he worked at the State Law Office as a State Counsel dealing with litigation matters and earlier at Njenga Mbugua & Nyanjua Advocates as a Litigation Associate. He has also worked with CDI-Africa, the premier Coach Institute in East & Central Africa.

Mr. Hassan Mohamed Sheikh – County Budget Co-ordinator



Mr. Hassan has over 10 years of professional experience in the public sector. Before joining OCOB, Mr. Sheikh was the Chief Executive Officer (C.E.O) of Mandera Education Development Society (MEDS) for over 10 years. He holds Master of Art in Economics from the University of Nairobi and a Bachelor of Science in Economics from the Islamic International University-Islamabad, Pakistan.

Mr. Hassan has attended several professional and leadership trainings including Strategic Leadership Development Programm (SLDP).

Ms. Winfred Njeri Kamua – Communication Officer



Ms. Kamau has over 15 years' experience of public relations and communications in the public sector. Before joining OCOB, she was a Public Communication Assistant at the Office of the President, a position she held for 6 years. Ms. Kamau is currently pursuing Master of Arts in International Relations at the University of Nairobi. She holds a Bachelor of Arts in Communication (Public Relations) from

St. Paul's University and has attended several professional, executive and supervisory trainings. Ms. Kamau is a member of the Public Relations Society of Kenya (PRSK).


CPA. Cheboi Kipyatich Thomas- Accountant



CPA. Cheboi is a Certified Public Accountant of Kenya and is a Member of the Institute of Certified Public Accountants of Kenya (ICPAK) in Good Standing. He has over 9 years' professional experience in Public Finance Management and Reporting in the public sector. Before joining OCOB, Cheboi worked in the Nairobi City County Assembly Service Board for over four years.

CPA Cheboi is currently pursuing Master of Commerce in Accounting at the Strathmore University. He holds Bachelor of Commerce degree in Accounting from the Catholic University of Eastern Africa and he has attended several professional, technical and leadership trainings in the public sector.

4. Scheme Management Team

Name	Details of qualifications and experience
 <p data-bbox="114 952 494 1019">CPA Dr. Margaret Nyakang'o Controller of Budget</p>	<p data-bbox="598 465 1372 1048">FCPA Dr Margaret Nyakang'o is the Controller of Budget. She holds a Doctorate in Business Administration from the University of Liverpool, UK. She also has a Master of Business Administration degree in Strategic Management and a Bachelor of Commerce in Accounting, both from the University of Nairobi. Dr Nyakang'o is a Certified Public Accountant and member of the Institute of Certified Public Accountants of Kenya (ICPAK). She is also a member of the Association of Women Accountants of Kenya (AWAK) and an active member of the Women on Boards Network with hands-on skills in corporate governance.</p> <p data-bbox="598 1070 1372 1646">Dr Nyakang'o has over thirty years of professional experience in the public and private sectors. She has broad experience in Finance and Accounting, Strategic Management, Auditing, Tax, and Human Resource Management. She has undertaken training within and outside her profession in various disciplines, including Enterprise Risk Management, Quality Management Systems, Public Finance Management, and Corporate Governance, among others. She is passionate about mentoring and coaching young aspiring women professionals and is a Certified Online Trainer and a Certified Professional Coach.</p>



CPA, FA Macklin Ogolla
Chairperson

CPA Ogolla holds a Master of Business Administration (MBA) in Finance from Moi University and a Bachelor of Science in Actuarial Mathematics from the University of Nairobi. He also holds a Post-graduate Diploma in Finance from Maastricht. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Certified Investment and Financial Analysts (ICIFA). He has six years as a Board Member of the Public Sector Accounting Standard Board (PSASB).

He has extensive knowledge in Fiscal Decentralization, Debt Sustainability Analysis, Budget Coding and Classification from the World Bank and International Public Sector standards from the Public Administration Institute, London and ICT training at Oracle University.

He is an experienced Finance Manager with a track record of success in developing policies, operational, financial management information systems, processes and procedures, managing ministry budgeting, financial management and accounting functions. He has worked on projects such as World Bank-funded El-Nino and Emergency Drought Recovery Projects and was the implementation team leader of the IFMIS at the National Treasury at its inception.

CPA Ogolla has over 28 years of work experience gained from his previous positions as Deputy Director of Budget and Assistant Accountant General at the National Treasury. He also served as Chief Finance Officer in the Ministry of Industrialization and was a Board Member of the Kenya Industrial Estates Limited.



CPA Pamela Okatch
The Fund Administrator

CPA Pamela holds a Master of Business Administration [Finance Option] and a Bachelor of Commerce degree [Finance Option] from the University of Nairobi and the Catholic University of Eastern Africa, respectively. She is a member of the Institute of Public Accountants of Kenya (ICPAK) and the Association of Women Accountants of Kenya (AWAK). She is a Certified Public Secretaries (CPS) Finalist. She is also a Board Member of the AWAK.

Pamela has over 15 years of experience in the accounting and finance field. She is well versed in accounting systems and practice and has attended various courses of professional training, conferences, and workshops both locally and overseas in financial Management.

Previously, she worked as a Senior Accountant for the Kenya Institute of Special Education (KISE) and as Head of Finance and Administration and Jaribu Credit Traders Limited.

5. Chairman's Report

With great pleasure, I forward, on behalf of the Office of the Controller of Budget, the OCoB Staff Mortgage Scheme Financial Statements for the financial year ending June 30, 2023. The financial statements represent the financial performance of the Scheme in the FY 2022/23 and prior-period comparative FY 2021/22 in compliance with IPSAS 1.

Review of performance

The OCoB Staff Mortgage Scheme's key objective is to support employees in acquiring residential property at a subsidized interest rate. During the reporting period, the Scheme maintained an interest rate of 3% as the cost of borrowing. This low cost of borrowing increased the number of loan beneficiaries from thirteen (13) in FY 2021/22 to twenty-three (23) at the end of FY 2022/2023, with disbursements increasing from **Kshs.98,696,755** to **Kshs.203,464,570** in the same comparative periods respectively.

Challenges

The following challenges have been identified by the scheme committee.

- i. Delays in processing and disbursements of the mortgage,
- ii. Lengthy conveyancing processes,
- iii. High cost of processing the mortgage, and
- iv. Low uptake of the mortgage
- v. Inadequate communication between the scheme managers and staff members.

Future Outlook

The future outlook of the Scheme is optimistic as the loan uptake is on the rise. Further, the office is in the process of implementing the SRC Circular on benefits to public officers by establishing a Car Loan Scheme.

The scheme focuses on building a robust and sustainable fund with a motivated workforce and structures that enhance seamless service delivery. The Scheme looks forward to continued support from the national government and other stakeholders to realize its full potential as a stable and sustainable revolving fund.

Appreciation

I take this opportunity to express my sincere gratitude and appreciation to the National Government, the Scheme Managers, OCoB Management, the Scheme Auditors, Stakeholders, the Scheme Committee Members and OCoB Staff for their continued support towards realizing the objectives of the Mortgage Scheme.

We shall endeavour to support staff through continuous engagements with the Scheme Manager to ensure that more employees benefit from the mortgage facility.

I look forward to your continued support in the Financial Year 2023/2024.

Signed: _____



Committee Chair

CPA Macklin Ogolla

ICPAK Member: 4077

6. Report of the Administrator

Performance Summary

The OCoB Staff Mortgage Scheme's key objective is to support employees in acquiring residential property at a subsidized interest rate. During the reporting period, the Scheme maintained an interest rate of 3% as the cost of borrowing. This low cost of borrowing increased the number of loan beneficiaries from thirteen (13) in FY2021/22 to twenty-three (23) at the end of FY 2022/2023, with disbursements increasing from Kshs.98,696,755 to Kshs.203,464,570 in the same comparative periods respectively. This benefit has not only played a role in the attraction, motivation and retention of staff but also enhanced the realization of highly motivated, dedicated and committed staff.

Since inception, the Mortgage Committee has so far approved Kshs. 235,968,500.00 in loans to staff. However, a loan amount of Kshs. 23,650,000 for three officers has not been disbursed as at the end of the FY 2022/23 due to delays in conveyancing processes. However, a total of twenty-three (23) staff members from different cadres have benefitted from the Scheme as shown below.

#/Scale	Category	Staff Establishment	Number of loan beneficiaries	Remarks
1	*Controller of Budget	1	-	Since operationalisation of the Scheme, the committee has approved loans amounting to Kshs.203,464,570 for twenty-three (23) staff as at 30 th June, 2023 representing 15.97 % loan uptake
2	Deputy Controller of Budget	1	1	
3	Directors	3	1	
4	Chief Managers	9	3	
5	Managers	13	4	
6-10	Technical & Support Staff	118	17	
	Total	144	23	

Controller of Budget is a state officer

HFC continuously carry out due diligence for all loan applications to minimize risks in property acquisition.

Income

The Scheme earned revenues amounting to Kshs.10,028,294 from exchange transactions in the year under review compared to Kshs. 12,176,408 earned in FY 2021/22, translating to a decrease of 18% in interest performance.

Capital

During the year under review, OCoB Scheme received additional transfers from exchequer amounting to **Kshs. 45,690,623**, leading to a total sum of **Kshs. 395,690,623** as exchequer receipts to the Scheme since inception. Overall, capital injection in form of exchequer transfers to the Scheme dropped by 45.69% in FY 2022/23 compared to FY 2021/22 due the government call of budget rationalization.

In addition, Kshs. 27,088,657 earned as interest income has been capitalised and credited to the mortgage account since inception.

Expenditures

i) Taxes

Withholding Income Tax

The Scheme Managers withheld tax on interest of Kshs. 911,287 charged at the prevailing tax rate of 15% on total interest income earned, compared to Kshs. 1,464,555 withheld and paid during the previous year-FY 2021/22 representing a decrease of 38% on tax charged and paid to the KRA due to the low interest income earned in the current period.

Fringe Benefit Tax (FBT)

Fringe Benefit Tax (FBT) was introduced by new provisions under Section 12B of the Income Tax Act. It is payable by employers in respect of loan provided to employees at an interest rate lower than the market interest rate. The office paid FBT of **Kshs. 3,900,526.50** during the period under review. Th FBT was paid from the OCOB Main Recurrent Account.

ii) Administration Fees

The contract agreement No. 13/2018-2019 on the provision of mortgage administration services provides that interest on mortgage loans is at 3% per annum on a reducing balance basis, all paid to Housing Finance Corporation (HFC) Ltd as administration fees. During the period under review, Kshs. 3,953,045 was earned as interest from issued mortgage loans and expensed as administration fees as per the terms of the contract as compared to Kshs. 2,412,705 in the FY 2021/2022 translating to 61.7% increase. This rise was necessitated by increase in the number of staff who accessed the mortgage loans during the FY 2022/23.

Signed: _____



CPA Pamela Okatch

ICPAK Member: 7884

Scheme Administrator

7. Statement of Performance against Predetermined Objectives

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012, requires the Accounting Officer to include a statement of the National Government Fund's performance against predetermined objectives in the financial statements.

The OCoB Staff Mortgage Scheme has one strategic pillar/ theme and objectives within the current Strategic Plan. This strategic pillars/ themes/ issue is as follows:

- Pillar /theme: **To attract and retain a productive and motivated work force**

The OCoB Staff Mortgage Scheme develops its annual work plans based on the above pillar/Theme/Issue. Assessment of the Committee's performance against its annual work plan is done quarterly. The OCoB Staff Mortgage Scheme achieved its performance targets set for the FY 2022/2023 period for its one strategic pillar, as indicated in the diagram below:

Strategic Pillar/Theme Program	Objective	Outcome	Key Performance Indicators	Achievements
Control and Management of Public Finance	To attract and retain a productive and motivated human resource	Increased number of staff accessing the mortgage	Number of staff who accessed the mortgage loans and percentage of staff retained in OCoB	The staff who accessed the mortgage loans rose from thirteen (13) in FY 2021/22 to twenty-three (23) in FY 2022/2023, leading to a motivated workforce and retention of staff in OCOB.

The key strategic objectives are contained in the OCoB 2018-2022 Strategic Plan. However, to comply with the Salaries and Remuneration Commission (SRC) guidelines, Circular Ref. No: SRC/ADM/CIR/1/13 Vol. III (128) dated December 17, 2014, that initialized the establishment of

the Fund, the OCoB 2018-2022 Strategic Plan incorporated the following as one of its strategic objectives.

- **To attract and retain a productive and motivated work force**

To realize this strategic objective, the OCoB Mortgage Scheme relied on its strategic objectives to guide activities, policy formulation and work plans. It made the following progress and achievements towards its targeted goal during FY 2022/2023.

8. Corporate Governance Statement

a. Introduction

The OCoB Mortgage scheme is a revolving fund established according to the Salaries and Remuneration Commission (SRC) circular number SRC/ADM/CIR/1/13 Vol. III (128) dated December 17, 2014, and Section 24 (4)(5)(6)(7) of the Public Finance Management (PFM) Act 2012 and regulation 127 (1)(2) of the PFM (National Government) Regulations, 2015. Its mandate is to provide housing mortgage loans to members of staff. The Scheme is committed to ensuring compliance with regulatory and supervisory corporate governance requirements. A formal governance structure with the Committee at its apex is essential to establishing a corporate governance framework in the Fund. The operations of the Fund are governed by OCOB Staff Mortgage Scheme Guidelines, 2018 and PFM Act, 2012, PFM (National Government) Regulations, 2015 SRC Circulars, National Treasury Circulars and any other government legislations.

b. Process of Appointment and Removal of Committee Members

Clause 6 & 8 of the OCoB Staff Mortgage Guidelines of 2018 provides for the appointment of a committee and Administrator of the Scheme. The Committee is made up of nine members, including the chairperson and a secretary and is responsible for the long-term strategic direction of the Fund. The Committee exercises leadership, enterprise, integrity and judgement in directing the Fund.

c. Roles and functions of the Administration Committee members

The function of the Committee includes: receiving and processing applications for loans following the existing terms and conditions of borrowing; liaising with the service provider (financial institution) to set up the revolving Fund for disbursement of loans; forward the successful applications with recommendations to the Controller of Budget for approval before delivering to the financial institution; consider and recommend approval of the financial statements; and such other duty as may be assigned by the Controller of Budget.

d. Number of Scheme Administration Committee meetings held and the attendance at those meetings by members

The Committee meets monthly or as required to monitor the implementation of the Scheme. During the year under review, the Committee met five (5) times at diverse dates as shown below:

*Office of the Controller of Budget Staff Mortgage Scheme
Annual Report and Financial Statements for the year ended 30th June, 2023*

Name	Meeting Dates				
	August 1, 2022	August 30, 2022	November 2, 2022	November 8, 2022	February 15, 2023
CPA Macklin Ogolla	-	√	√	√	√
CPA Pamela Okatch	√	-	-	√	√
CPA Mark Kipkoech	√	√	√	-	√
Ms Irene Arimi	√	-	√	√	√
Ms Judith Muli	-	√	-	√	√
Mr Waweru Tuti	√	√	√	√	√
Mr Hassan Sheikh	√	-	√	-	√
Ms Winfred Njeri	√	√	√	√	-
Cheboi Thomas (Co-opted)	-	-	-	√	√

e. Existence of a service charter

The Committee developed a conduct of business document to provide a framework for operations of the Committee. The framework provides for the quorum of meetings, schedule of meetings and provision for special sessions, conflict of interest, creating a sub-committee to deal with audit and compliance issues, confidentiality and proper records management.

f. Conflict of interest

The framework provides guidelines on dealing with conflict of interest. The Committee maintains a register on the declaration of conflict of interest, which is signed at the beginning of each meeting.

g. Committee Remuneration

The Committee members have not earned any remuneration since the inception of the OCoB Staff Mortgage Scheme. However, the Committee members have continued discharging their duties diligently.

h. Ethics and conduct as well as governance audit

(i) Internal Control

The Committee is responsible for reviewing the effectiveness of the Fund's system of internal controls, which is designed to provide reasonable, not absolute, assurance regarding safeguarding assets against unauthorized use or disposition. The Committee also maintains proper accounting records and ensures 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.

(ii) Management Team

The management team headed by the Chair of the Mortgage Committee and the Fund Administrator implements the committee decisions and policies through action plans. The team regularly reviews these action plans to ensure that the Committee's objectives are effectively and efficiently.

(iii) Audit

The Auditor General is responsible for the statutory audit of the Office of the Controller of Budget Staff Mortgage Scheme Fund in accordance with the provisions of Art. 226 (3) and Art.229 (4) (b) of the Constitution of Kenya, 2010, section 24 (10) (b) and section 84 (3) of the PFM Act, 2012 and section 35 of the Public Audit Act, 2015.

The audit issues raised in the previous FY 2021/2022 were resolved, and the scheme financial statements were reported to present fairly in all material aspects the true financial position of the Scheme. The auditors of the Scheme, thus, issued an **unqualified audit opinion**.

(iv) Statement of Compliance

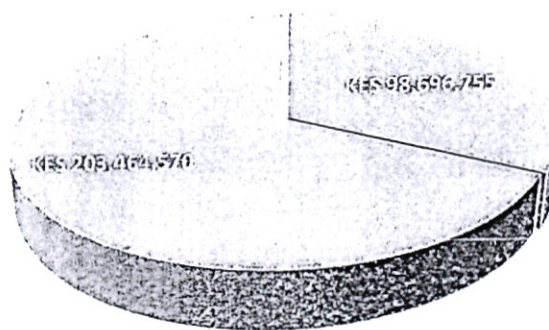
The Committee confirms that the Scheme has, throughout the FY 2022/2023, complied with all statutory and regulatory requirements and has been managed under the principles of good corporate governance. Further, the fund complied with the values and principles of public service.

9. Management Discussion and Analysis

a. The operational and financial performance of the Scheme during the period

During the financial year, the Scheme maintained an interest rate of 3% as the cost of borrowing as guided by the SRC Circular. The number of loan applicants increased from thirteen (13) in FY2021/22 to twenty-three (23) in FY 2022/23, with disbursements increasing from Kshs. 98,696,755 to Kshs. 203,464,570 and a further Kshs.23,650,000 pending in various stages of conveyancing. Kshs. 8,853,930 has been approved and committed for buy and build projects, giving rise to Kshs. 235,968,500 as total loans approved by the committee as at 30th June, 2023.

Mortgage Disbursements



■ Mortgage Disbursements as at 30th June FY 2021/22 ■ Mortgage Disbursements as at 30th June FY 2022/23

The performance of the mortgage scheme as at the end of 30th June 2023 is as analysed below:

Details	FY 2022/23	FY2021/22	Remarks
Exchequer Receipts	Kshs. 395,690,623	Kshs. 350,000,000	The exchequer increased by Kshs 45,690,623
Interest Income earned from High Interest Account	Kshs. 6,075,249	Kshs. 9,763,703	The interest income declined by Kshs.3,688,454 due to low interest rates

*Office of the Controller of Budget Staff Mortgage Scheme
Annual Report and Financial Statements for the year ended 30th June, 2023*

3	Interest Income from loans/(Administration fees)	Kshs. 3,953,045	Kshs. 2,412,705	The interest income earned from the loan disbursed increased by Kshs. 1,540,340 due to rise in loan uptake. The interest was utilized as administration fees by the fund manager as per the contract terms
4	Number of loan applications approved	23	13	During the year, the committee approved thirteen (13) applications. However, three (3) applications are still pending at conveyancing level.
5	Amount of loan disbursed to date	Kshs. 203,464,570	Kshs. 98,696,755	The loan disbursed increased by Kshs.104,767,815 due to the increased uptake
6	Loan absorption rate as a percentage of exchequer receipts/income	51.4%	28.2%	There was an increase in loan absorption due to rise in number of loan applicants.
	Loan absorption as % of staff establishment	15.97%	9%	As at the reporting period, 15.97% absorption rate was achieved
7	Principal loan recoveries	Kshs.10,084,411.85	Kshs. 3,031,881	The principal loan recovery for FY 2022/23 increased by Kshs 7,052,530.85 in comparison to FY 2021/22 due to increase in loan uptake
3	Loan approved but not disbursed	Kshs.23,650,000	Kshs. 31,965,000	As at the end of the reporting period, loan applications for three (3) officers were pending at conveyancing processes as compared to five (5) in the last FY

*Office of the Controller of Budget Staff Mortgage Scheme
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9	Interest Rate	3%	3%	The interest rate remained 3% per annum on reducing balance as per the SRC circular during the reporting period
10	Average interest rate for funds at Fixed Deposit A/c	2.5 %	5.08%	The average effective interest rate to the Free Fund (High Interest/Fixed Deposit) Account is annualized 91-day treasury bill rate minus 1%. Thus, the applied average actual percentage rates during the year under review significantly reduced to an average of 2.5% against the CBK average 91-day treasury bill rate of 8.5%.
1	Scheme Bank Balance	Kshs.178,289,889	Kshs. 247,138,950	There was a decrease in the scheme bank account balance during the period due to increase in loan uptake.
2	Amount approved and committed for buy and build projects	Kshs.8,853,930	Kshs.17,856,745	The loan amount approved for buy and build projects are disbursed in instalments based on certificate of engineers/architects % of project completion. The amount reduced by 50% due to decrease in loan uptake relating to buy and build projects
3	Loan Book Balance (Scheme Back-Up Account)	Kshs.194,734,170	Kshs. 95,664,873	The loan book balance increased by Kshs 99,069,297 in the reporting period representing 104% increase.

*Office of the Controller of Budget Staff Mortgage Scheme
Annual Report and Financial Statements for the year ended 30th June, 2023*

The status of the OCoB staff mortgage loan uptake as at 30th June, 2023 was as follows:

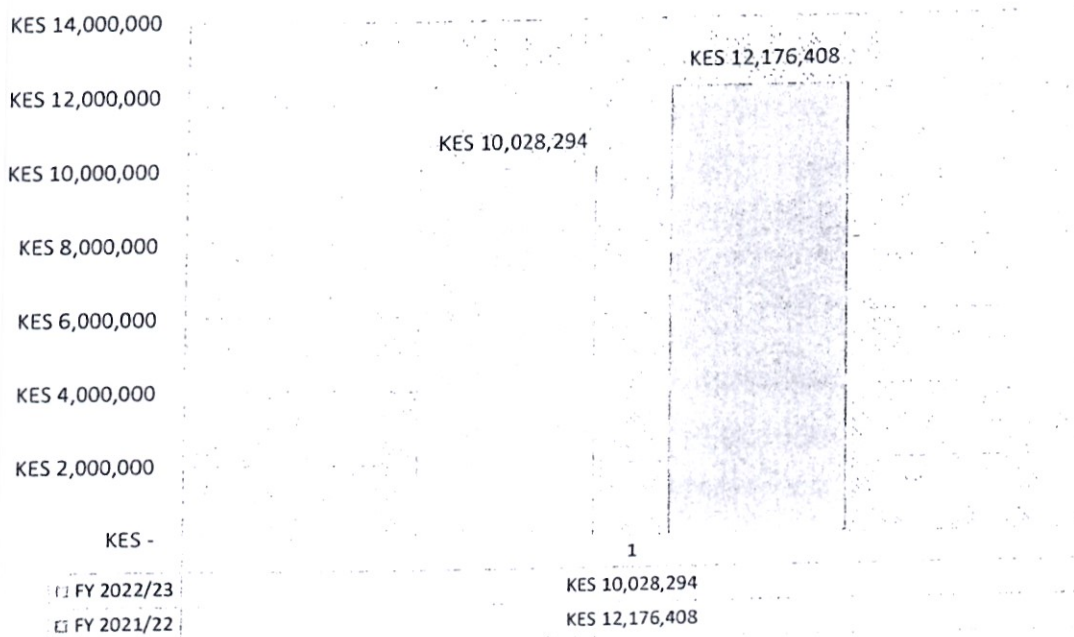
#	Name of the Borrower	Mortgage Loan Disbursed (Kshs.)	Instalment disbursements for buy & build projects (Kshs.)	Approved Mortgage Loan pending disbursements (Kshs.)
1	Nancy Mutua Kendi	10,000,000	-	-
2	Ben Makhanu Simiyu	7,100,000	-	-
3	Philemon Ronoh Kipkosgei	9,000,000	-	-
4	George Tuti Waweru	11,100,000	-	-
5	Theodora Ochichi Bosibori	4,561,570	1,671,930	-
6	Sally Rono Jepkorir	8,000,000	-	-
7	Nicodemus Oyalo Brownley	9,246,180	753,820	-
8	Denis Okungu Ogwel	7,843,984	2,726,016	-
9	Norah Mogaka Robina	10,000,000	-	-
10	Jackline Ogalo Kaziga	10,000,000	-	-
11	Joseph Marembo Ooko	8,550,000	-	-
12	Lilian Nyambu Wawuda	6,000,000	-	-
13	Julius Kihara Cheche	6,297,836	3,702,164	-
14	Praxcides Ajiambo	3,600,000	-	-
15	Cheboi Thomas Kipyatich	6,615,000	-	-
16	Joshua Musyimi Mutisya	13,300,000	-	-
17	Patrick Kamau Kamore	13,950,000	-	-
18	James Gitahi Muthui	5,000,000	-	-
19	Jeremiah Mbene Kabiru	2,000,000	-	-
20	Mark Kipkoech	15,000,000	-	-
21	Rose Apunda	8,300,000	-	-
22	Musa Kidzuga Lugwe	8,000,000	-	-
23	Stephen Ngowa Masha	20,000,000	-	-
24	Charles Gachoki	-	-	4,000,000
25	Antonette Kanani	-	-	7,500,000
26	Judith Muli	-	-	12,150,000
TOTAL		203,464,570	8,853,930	23,650,000
GRAND TOTAL				235,968,500

Interest Income

During the FY 2022/23, there was a drop of 5.9% on interest income earned. The Scheme earned interest income of Kshs.10,028,294 compared to Kshs. 12,176,408 earned in FY 2021/22 due to low interest rates on deposits (which averaged 2.5% in FY 2022/23) and rise on loan approvals and disbursements thus lowering the deposits available.

The interest performance during the period was as shown below;

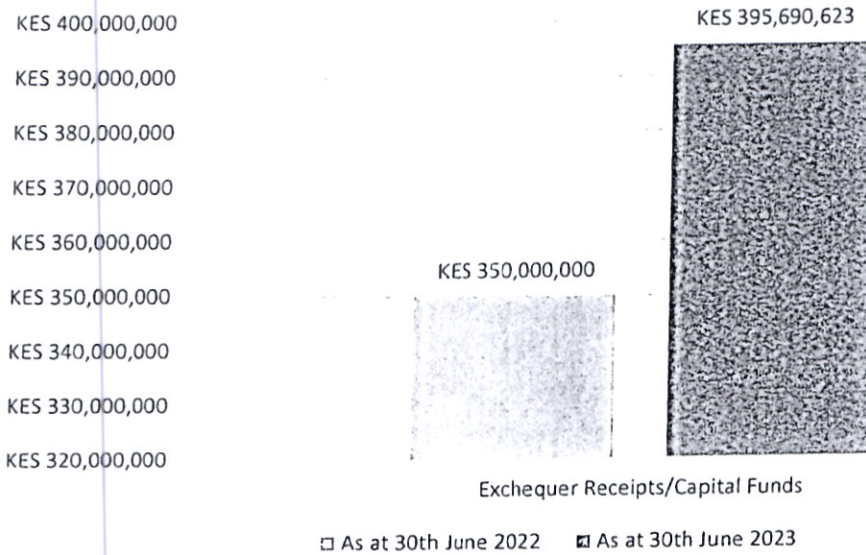
Interest Income Performance



Capital Funds

The OCoB Staff Mortgage Fund received additional transfers of Kshs. 45,690,623 from the exchequer, leading to a total sum of Kshs. 395,690,623.00 as exchequer receipts to the fund since inception. Overall, capital injection in form of exchequer transfers to the fund dropped by 45.69% in FY 2022/23 compared to FY 2021/22 due to the government budget austerity measures and budget rationalization put in place in FY 2022/23 budget to meet the fiscal deficits.

Exchequer Receipts/Capital Funds

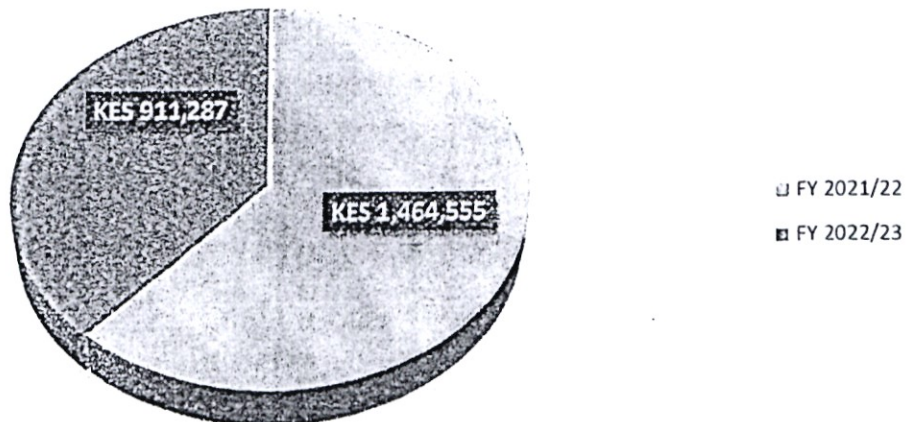


Expenditures

iii) Taxes

The fund managers withheld and paid tax on interest of Kshs. 911,287 charged at the statutory tax rate of 15% on total interest income earned of Kshs. 6,075,249 during the FY 2022/23 compared to Kshs.1,464,555 withheld and paid on interest income of Kshs. 9,763,703 during the previous year-FY 2021/22 representing a decrease of 38% on tax charged and paid to the Kenya Revenue Authority (KRA) due to the low interest income earned in the current period, FY 2022/23.

Withholding Tax on Interest Income



Fringe Benefit Tax (FBT)

Section 12B of the Income Tax Act provides for Fringe Benefit Tax (FBT). FBT is payable by employers in respect of loan provided to employees at an interest rate lower than the market interest rate.

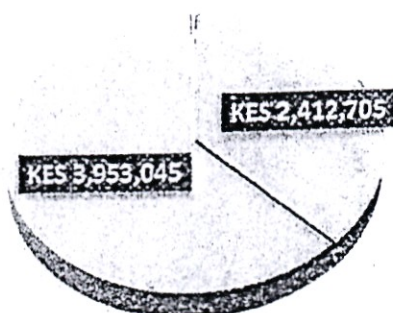
The OCoB operationalized Staff Mortgage Scheme since FY 2020/21 to support employees in acquiring residential properties. The scheme has maintained granting mortgage to staff at an interest rate of 3% p.a as per Salaries and Remuneration Commission (SRC) circular Ref: SRC/ADM/CIR/1/13 Vol. III (128) dated 17th December 2014 as the cost of borrowing against the prescribed market interest rates published and issued by the Kenya Revenue Authority (KRA) from time to time through a public notice.

The commissioner prescribed interest rates for FBT averaging 6%-9% during the period. The office paid FBT of Kshs. 3,900,526.50 through OCOB Recurrent Account during the reporting period.

Administration fees

The contract agreement No. 13/2018-2019 on the provision of mortgage administration services provides that interest on mortgage loans is at 3% per annum on a reducing balance basis, all paid to Housing Finance (HF.) Ltd as administration fees. During the period under review, Kshs. 3,953,045 was earned as interest from issued mortgage and expensed as administration fees as per the terms of the contract compared to Kshs. 2,412,705 in the FY 2021/2022 translating to 61.7% increase. This rise can be attributed to the increase in the number of staff who accessed the mortgage during the FY 2022/23.

Administration Fees



FY 2021/22
FY 2022/23

b. Fund's compliance with statutory requirements,

The committee confirms that the Fund has, throughout the FY 2022/2023, complied with all statutory and regulatory requirements and has been managed under the principles of good corporate governance.

c. Other relevant information to the users of the financial statements

Changing government policy may lead to changes in the mortgage guidelines, which may affect the current scheme benefits, e.g. the low-interest rates and an extended repayment period.

10. Environmental and Sustainability Reporting

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

During the financial year 2022/23, the Fund did not carry-out any CSR. However, the Committee is looking forward to getting involved in CSR activities in FY 2023/24.

11. Report of the Scheme Administration Committee

The Scheme Administration Committee submits the report together with the financial statements for the year ended June 30, 2023, which show the state of the Scheme affairs.

Principal activities

The principal activity of the Scheme is to provide financing to the members of OCoB staff to purchase, develop or renovate a residential property.

Performance

The performance of the Fund for the year ended June 30, 2023, is as set out on pages xx to xxxvi for non-financial and 1 to 33 for financial.

Committee

The members of the committee who served during the year are as shown on pages vi above.

Auditors

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

By Order of the Committee



.....
Committee Chair
CPA Macklin Ogolla
ICPAK Member: 4077

12. Statement of Management's Responsibilities

Section 84 (1) of the Public Finance Management Act, 2012, requires the Administrator of a Fund established by the Salaries and Remuneration Commission (SRC) circular number SRC/ADM/CIR/1/13 Vol. III (128) dated December 17, 2014, and Section 24 (4)(5)(6)(7) of the Public Finance Management (PFM) Act, 2012 and regulation 127 (1)(2) of the PFM (National Government) Regulations, 2015 to prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Administrator of the 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 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 Salaries and Remuneration Commission (SRC) circular number SRC/ADM/CIR/1/13 Vol. III (128) dated December 17, 2014, and Section 24 (4)(5)(6)(7) of the Public Finance Management (PFM) Act 2012 and regulation 127 (1)(2) of the PFM (National Government) Regulations, 2015. 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 the Fund's transactions during the financial year ended June 30, 2023, and of the Fund's financial position as of that date.

Office of the Controller of Budget Staff Mortgage Scheme
Annual Report and Financial Statements for the year ended 30th June, 2023

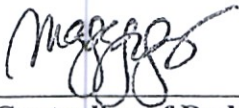
The Administrator further confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in preparing the Fund's financial statements and the adequacy of the systems of internal financial control.

In preparing the financial statements, the Administrator of the Fund has assessed the Fund's ability to continue as a going concern.

Nothing has come to the Administrator's attention 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 Scheme's financial statements were approved by the committee on 11th December, 2023 and signed on its behalf by:



Controller of Budget
FCPA Dr. Margaret Nyakang'o
ICPAK Member: 2145



Mortgage Fund Administrator
CPA Pamela Okatch
ICPAK Member Number: 7884



Mortgage Committee Chair
CPA Macklin Ogolla
ICPAK Member: 4077

REPUBLIC OF KENYA

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HEADQUARTERS
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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON OFFICE OF THE CONTROLLER OF BUDGET STAFF MORTGAGE SCHEME FOR THE YEAR ENDED 30 JUNE, 2023

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 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 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

Opinion

I have audited the accompanying financial statements of the Office of the Controller of Budget Staff Mortgage Scheme set out on pages 1 to 33, which comprise of the statement of financial position as at 30 June, 2023, and the statement of financial performance,

Report of the Auditor-General on Office of the Controller of Budget Staff Mortgage Scheme for the year ended 30 June, 2023

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 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, the financial statements present fairly, in all material respects, the financial position of the Office of the Controller of Budget Staff Mortgage Scheme as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Office of the Controller of Budget Staff Mortgage Scheme 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 opinion.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Irregular Payment of Administration Fees

The statement of financial performance and Note 8 to the financial statements reflects an expenditure totalling Kshs.3,954,345 under use of goods and services which relates to administration costs. This represents approximately eight percent (8%) of the approved budget of Kshs.49,591,150 resulting in an irregular additional expenditure totalling Kshs.2,466,611 contrary to Regulations 207(1)(d) of the Public Finance Management (National Government) Regulations, 2015 which sets the ceiling of administration costs of a public fund to 3% of the approved budget. Although Management had indicated that

they are engaging the Fund Managers on the issue of administration fees and that they are in the process of procuring mortgage services competitively, the progress made by the time of completion of the audit in December, 2023 was not disclosed.

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 that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require 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 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 Scheme'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 abolish the Scheme 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 Scheme'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 audit 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 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 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 Management.
- Conclude on the appropriateness of 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 Scheme'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 Scheme 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 Scheme 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


08 January, 2024

14. Statement of Financial Performance for the year ended 30th June, 2023.


Description	Note	2022/23	2021/22
		Kshs.	Kshs.
Revenue from exchange transactions			
Interest income	7	10,028,294	12,176,408
Total revenue		10,028,294	12,176,408
Expenses			
Use of goods and services	8	3,954,345	2,412,705
Total expenses		(3,954,345)	(2,412,705)
Surplus/(deficit) before tax		6,073,949	9,763,703
Taxation	9	(911,287)	(1,464,555)
Surplus/Deficit after Tax		5,162,662	8,299,148

(The notes on pages 21 to 27 form an integral part of these Financial Statements).

The financial statements were approved on 11th December, 2023 by:


.....

**FCPA Dr Margaret
Nyakango
ICPAK M/No:2145
Controller of Budget**


.....

**CPA Pamela Okatch
ICPAK M/No:7884
Scheme Administrator**

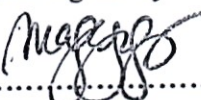

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**CPA Macklin Ogolla
ICPAK M/No: 4077
Chairperson of the Scheme**

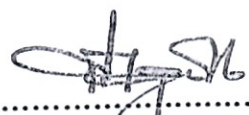
15. Statement of Financial Position as at 30th June, 2023

Description	Note	2022/23 Kshs.	2021/22 Kshs.
Assets			
Current assets			
Cash and cash equivalents	10	373,024,059	342,803,823
Receivables from exchange transactions	11	16,676,996	7,691,065
Receivables from Non- exchange transactions	6/12	45,690,623	25,000,000
Total Current Assets		435,391,678	375,494,888
Non-current assets			
Receivables from exchange transactions	11	179,213,369	89,187,577
Total Non-current assets		179,213,369	89,187,577
Total Assets		614,605,047	464,682,465
Liabilities			
Trade and other payables	13	194,734,170	95,664,873
Total Liabilities		(194,734,170)	(95,664,873)
Net Assets		419,870,877	369,017,592
Mortgage revolving fund	14	395,690,623	350,000,000
Prior year adjustment			
Accumulated surplus (<i>Reserves</i>)	14	24,180,254	19,017,592
Total Net Assets and Liabilities		419,870,877	369,017,592

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Fund financial statements were approved on 11th December, 2023 and signed by:


.....
FCPA Dr Margaret Nyakango
ICPAK M/No:2145
Controller of Budget


.....
CPA Pamela Okatch
ICPAK M/No:7884
Scheme Administrator


.....
CPA Macklin Ogolla
ICPAK M/No: 4077
Chairperson of the Scheme

16. Statement of Changes in Net Assets for the year ended 30th June, 2023

Description	Mortgage Fund	Accumulated surplus	Total
	Kshs.	Kshs.	Kshs.
As at 1st July, 2021	250,000,000	10,718,444	260,718,444
Surplus/(deficit) for the period	-	8,299,148	8,299,148
Funds received during the year	100,000,000	-	100,000,000
As at 30th June, 2022	350,000,000	19,017,592	369,017,592
Balance as at 1st July, 2022	350,000,000	19,017,592	369,017,592
Surplus/(deficit) for the period	-	5,162,662	5,162,662
Funds received during the year	45,690,623	-	45,690,623
As at 30th June, 2023	395,690,623	24,180,254	419,870,877

17. Statement of Cash Flows for the year ended 30th June, 2023

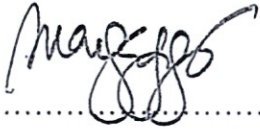
Description	Note	2022/23 Kshs.	2021/22 Kshs.
Cash flows from operating activities			
Receipts			
Interest income		10,028,294	10,748,444
Total Receipts		10,028,294	10,748,444
Payments			
Use of goods and services		3,953,045	2,412,705
Taxation		911,287	1,250,361
Total payments		(4,864,332)	(3,663,066)
Net cash flow from operating activities		5,163,962	7,085,378
Cash flows from investing activities			
Proceeds from principal loan repayments		5,754,792	2,571,392
Loan disbursements paid out		(200,432,688)	(98,236,265)
Net cash flows used in investing activities		(194,677,896)	(95,664,873)
Cash flows from financing activities			
Receipts into the mortgage revolving fund		25,000,000	75,000,000
Loan disbursements		194,734,170	95,664,873
Net cash flows used in financing activities		219,734,170	170,664,873
Net increase/(decrease) in cash and cash equivalents		30,220,236	82,085,378
Cash and cash equivalents at July 1	10	342,803,823	260,718,445
Cash and cash equivalents at June 30	10	373,024,059	342,803,823

18. Statement of Comparison of Budget and Actual amounts for the year ended 30th June, 2023

Description	Original budget	Adjustments	Final budget	Actual on a comparable basis	Performance difference	% of utilization
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
	A	b	C=(a+b)	d	e=(c-d)	F=d/c
Revenue						
Transfers from OCOB	100,000,000	50,408,851	49,591,150	45,690,623	3,900,527	92%
Interest income	-	-	-	10,028,294	(10,028,294)	-
Total Revenue	100,000,000	50,408,851	49,591,150	55,718,917	(6,127,767)	112%
Expenses						
Use of goods and services	-	-	-	3,954,345	3,954,345	
Expenditure	-	-	-	(3,954,345)	(3,954,345)	
Surplus/Funds available for the Period	100,000,000	50,408,851	49,591,150	51,764,572	(10,082,112)	104%
Capital Expenditure	-	-	-	-	-	-

The total budget and actual on a comparable basis do not tie to the statement of financial performance totals due to differences in accounting basis. The statement of financial performance is presented under IPSAS-Accrual basis, thus showing the interest earned by the Scheme of Kshs. 10,028,294; whereas the Statement of Budget Comparison is presented under IPSAS-Cash basis shows a final budget of Kshs. 49,591,150 as additional capital to the Scheme arising from the OCoB recurrent account.

Further, the statement of financial performance and statement of comparison of budget shows Kshs. 5,162,662 and Kshs. 51,764,572 respectively, as surplus to the Scheme because of the difference in accounting methods as explained above.



.....
FCPA Dr. Margaret Nyakango
ICPAK M/No:2145
Controller of Budget



.....
CPA Pamela Okatch
ICPAK M/No:7884
Scheme Administrator



.....
CPA Macklin Ogolla
ICPAK M/No: 4077
Chairperson of the Scheme

19. Notes to the Financial Statements

1. General Information

The Office of the Controller of Budget Staff Mortgage Scheme is established by and derives its authority and accountability from the Salaries and Remuneration Commission (SRC) circular number SRC/ADM/CIR/1/13 Vol. III (128) dated December 17 2014, and Section 24 (4)(5)(6)(7) of the Public Finance Management (PFM) Act 2012 and regulation 127 (1)(2) of the PFM (National Government) Regulations, 2015. The Fund is wholly owned by the Government of Kenya and is domiciled in Kenya. The Fund's principal activity is to provide mortgage loans to OCOB staff members.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant, and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. Preparing financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in note xxxv and page twenty.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Scheme.

The financial statements have been prepared in accordance with the PFM Act and International Public Sector Accounting Standards (IPSAS) Accrual Basis. The accounting policies adopted have been consistently applied to all the years presented.

3. Adoption of New and Revised Standards

i. New and amended standards and interpretations in issue effective in the year ended June 30 2023

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p><i>(There was no impact of the Standard to the current financial report of the Scheme)</i></p>

Standard	Effective date and impact:
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <ul style="list-style-type: none"> (a) The nature of such social benefits provided by the Entity. (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the Entity’s financial performance, financial position and cash flows. <p><i>(There was no impact of the Standard to the current financial report of the Scheme)</i></p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2023:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. d) Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued. <p><i>(There was no impact of the Standard to the current financial report of the Scheme)</i></p>

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Standard	Effective date and impact:
Other improvements to IPSAS	<p><i>Applicable 1st January 2023</i></p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> • <i>IPSAS 39: Employee Benefits</i> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> • IPSAS 29: Financial instruments: Recognition and Measurement <p>Standard no longer included in the 2023 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.</p> <p><i>(There was no impact of the Standard to the current financial report of the Scheme)</i></p>

Notes to the Financial Statements (Continued)

- ii. New and amended standards and interpretations in issue not yet effective in the year ended June 30 2023.

Standard	Effective date and impact:
IPSAS 43	<p><i>Applicable 1st January 2025</i></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> <p><i>(There was no impact of the Standard to the current financial report of the Scheme)</i></p>
IPSAS 44: Non-Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> <p><i>(There was no impact of the Standard to the current financial report of the Scheme)</i></p>

iii. Early adoption of standards

The Entity did not early – adopt any new or amended standards in the financial year

4. Significant Accounting Policies

a. 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 Fund and can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realised in the statement of financial performance over the useful life of the assets that has been acquired using such funds.

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 for each period.

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the Entity's right to receive payments is established.

b. Budget information

The original budget for the OCoB for FY 2022/23 was Kshs. 702,370,000. 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 fund upon receiving the respective approvals in order to conclude the final budget. The final approved budget thus, stood at Kshs 620,361,117, out of which the Mortgage Scheme recorded additional appropriations of Kshs 100,000,000 in the year under review.

Accordingly, the scheme recorded additional appropriations of Kshs.100,000,000 out of which Kshs. 50,408,850.50 was cut as part of the government budget rationalization in the FY 2022/23 whereas Kshs. 45,690,623 was received in the scheme account on July 6, 2023 and Kshs. 3,900,526.50 paid to the Commissioner of Income Tax as Fringe Benefit Tax.

The Scheme's budget is prepared on a different basis from 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 comparison of budget and actual amounts as per the statement of financial performance has been presented under section 8 of these financial statements.

c. Property, plant, and equipment (PPE)

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 Fund recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a primary 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.

d. 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 exchange date. Following initial recognition, intangible assets are carried at a cost less than accumulated amortization and 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.

e. Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property. Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over existence period or investment property is measured at fair value with gains and losses recognised through surplus or deficit. Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition

f. Financial instruments

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The OCOB does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the OCoB's financial statements.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the entity measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1) Financial assets

Classification of financial assets

The entity classifies its financial assets as subsequently measured at amortised cost, fair value through net assets/ equity or fair value through surplus and deficit on the basis of both the entity's management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/ equity if it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/ equity unless an entity has made irrevocable election at initial recognition for particular investments in equity instruments.

Subsequent measurement

Based on the business model and the cash flow characteristics, the entity classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

Amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through net assets/ equity

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through net assets/ equity. Movements in the carrying amount are taken through net assets, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in surplus/deficit. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through surplus or deficit

Financial assets that do not meet the criteria for amortized cost or fair value through net assets/ equity are measured at fair value through surplus or deficit. A business model where the entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through surplus or deficit model.

Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. Trade and other receivables are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end.

Impairment

The entity assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The entity recognizes a loss allowance for such losses at each reporting date. Critical estimates and significant judgments are made by management in determining the expected credit loss (ECL).

II) Financial liabilities

Classification

The entity classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

g. Contingent liabilities

The 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.

h. Contingent assets

The 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 the Fund in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. Suppose 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.

i. Nature and purpose of reserves

The Scheme creates and maintains reserves in terms of specific requirements. No Scheme reserves were maintained during the period under review.

j. Changes in accounting policies and estimates

The 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.

k. Prior Period Adjustment

During the year, there were no errors adjusted or that have been corrected and disclosed under the notes.

l. 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.

m. Related parties

The Fund regards a related party as a person or entity with the ability to exert control individually or jointly or to exercise significant influence over the Fund, or vice versa. Key Management members are regarded as related parties and comprise the Directors/ Trustee, the Fund Managers, and Fund Accountant.

n. 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 an insignificant risk of changes in value.
Bank account balances include amounts held at the Housing Finance Corporation of Kenya Ltd

o. Comparative figures

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

p. Events after the reporting period

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

q. Ultimate and Holding Fund

The Fund is established under Section 24 (4) PFM Act and it's under the sponsorship of the Office of the Controller of Budget which is an independent office. Its ultimate parent is the Government of Kenya.

r. Currency

The financial statements are presented in Kenya Shillings (Kshs) rounded to the nearest shilling.

Significant Accounting Policies (Continued)

5. Significant judgments and sources of estimation uncertainty

Preparing the Fund's financial statements in conformity with IPSAS requires Management to make judgments, estimates and assumptions that affect the reported 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.

a) 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. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Fund. Such changes are reflected in the assumptions when they occur.

b) 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:

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

Notes to the Financial Statements

6. Transfers from the Office of the Controller of Budget

Description	2022/23	2021/22
	Kshs.	Kshs.
Transfers	45,690,623	100,000,000
Total	45,690,623	100,000,000

The transfers refer to the additional capital sum received from the Exchequer to the Scheme account during the period. Notably, Kshs.100,000,000 was budgeted and appropriated for the Scheme. However, Kshs. 45,690,623 was transferred to the fund account on July 6, 2023, whereas Kshs. 3,900,526.50 was paid to the Commissioner of Income Tax as Fringe Benefit Tax (FBT) and Kshs. 50,408,850.50 was scaled down as part of the government rationalization measures put in place in the FY 2022/23 to meet budget fiscal deficit.

6(b) Transfers from the Office of the Controller of Budget

Office of the Controller of Budget (OCOB)	Amount recognized to Statement of Financial performance	Amount recognised in revolving fund	Total FY 2022/23	Total FY 2021/22
	Kshs	Kshs	Kshs	Kshs
Transfers from the OCOB	45,690,623	45,690,623	45,690,623	100,000,000
Total	45,690,623	45,690,623	45,690,623	100,000,000

7. Interest income

Description	2022/23	2021/22
	Kshs.	Kshs.
Interest Income from Mortgage Loans	3,953,045	2,412,705
Interest Income on Bank Deposits	6,075,249	9,763,703
Total Interest Income	10,028,294	12,176,408

The Interest Income of Kshs. 6,075,249 relates to the total interest earned on the capital sum deposited in the Free Fund (High Interest/Fixed Deposit) Account at an annualized 91-day Treasury Bill Rate minus 1%. In addition, the interest income of Kshs.3,953,045 constitutes interest earned from the issued mortgage loan. It refers to the total interest deducted from loan beneficiaries at an approved interest rate of 3% per annum on a reducing balance basis, all earned and paid as

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administration costs to the scheme manager, the Housing Finance (HFC) Ltd as per the existing contract agreement terms.

(7b) Analyses of Interest Income Earned	
Date	Interest Amount (Kshs)
08/07/2022	117,350
30/09/2022	1,691,671
31/12/2022	1,645,385
31/03/2023	1,360,229
30/06/2023	1,260,614
Total	6,075,249

(7c) Analyses of interest earned and expensed as administration costs	
Month/Year	Interest Amount (Kshs)
July, 2022	243,221
August, 2022	242,640
Sep-22	265,535
Oct-22	262,729
Nov-22	269,441
Dec-22	343,158
Jan-23	354,672
Feb-23	331,951
Mar-23	372,346
Apr-23	419,050
May-23	419,116
Jun-23	429,187
Total	3,953,045

8. Use of Goods and Services

Description	2022/23	2021/22
	Kshs.	Kshs.
Administration Fees	2,677,076	2,412,705
Insurance Expenses	1,215,069	
Ledger fees	60,900	
Bank charges	1,300	
Total	3,954,345	2,412,705

The total use of goods and services comprises of Kshs 3,954,345 as administration fees which includes interest charged on loans, insurance fees, ledger fees and banks charges deducted from loan beneficiaries at an approved interest rate of 3% per annum on a reducing balance, all earned and paid as administration costs to the mortgage administrator, the Housing Finance (HF) Ltd as per the existing contract agreement terms.

9. Taxation

Description	2022/23	2021/22
	Kshs.	Kshs.
Tax Charged on Interest Income	911,287	1,464,555
Income Tax expense	911,287	1,464,555

(9b) Analyses of Income Tax Expenses	
Date	Tax Amount (Kshs)
08/07/2022	17,602
30/09/2022	253,751
31/12/2022	246,808
31/03/2023	204,034
30/06/2023	189,092
Total	911,287

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10. Cash and Cash equivalents

Description	2022/23	2021/22
	Kshs.	Kshs.
OCOB Mortgage Accounts:		
Fixed Deposit-High Interest Account (Free Fund Account)	178,289,889	247,138,950
Back-Up Account	194,734,170	95,664,873
Total Cash and Cash equivalents	373,024,059	342,803,823

The total cash and cash equivalent of Kshs. 373,024,059 is the actual amount in the scheme's high interest account. The scheme back-up account holds funds equivalent to the amount disbursed to the loan beneficiaries. The back-up account also holds the loan principal repaid by the loanees before it is transmitted to the high-interest account.

The back-up account balance was Kshs.194,734,170 and Kshs. 95,664,873 as at 30th June, 2023, and 2022, respectively. A Certificate of Bank Balance issued by the Fund Manager, supports the closing balances in the Free Fund Account and Back-Up Accounts at the end of the reporting period. The balance in the Back Up Account does not earn interest as specified under the agreement.

10 b) Detailed analysis of the cash and cash equivalents

Financial Institution	Account number	2022/23	2021/22
		Kshs.	Kshs.
Mortgage Loan Fund			
Fixed Deposit Accounts			
Free Fund Account -OCOB High-Interest Account Housing Finance Company of Kenya Ltd	9289753401-0	178,289,889	247,138,950
Sub - Total		178,289,889	247,138,950
Scheme Back-Up Account			
Back-Up Account Housing Finance Company of Kenya Ltd	9289753101-0	194,734,170	95,664,873
Sub-Total		194,734,170	95,664,873
Grand Total		373,024,059	342,803,823

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The cash and cash equivalent of Kshs. 373,024,059 reported as at 30th June, 2023 is accumulation of bank balance in the Fixed Deposit Account of Kshs. 178,289,889 being considered as actual cash and cash equivalent for the period and the Back-Up Account balance of Kshs. 194,734,170 being amount of loan disbursed and recognized as receivables in the financial statements. The balances are supported by Bank Balance Certificate annexed in the financial statements report.

The average effective interest rate to the Free Fund (High Interest) Account is an annualized 91-day treasury bill rate minus 1%. Thus, the applied average actual percentage rates for Q1, Q2, Q3 and Q4 stood at 2.5%.

10 c) Analyses of mortgage disbursements to date;

Loans Disbursements as at 30th June, 2023		
#	Staff Name	Amount
1	Rose Apunda	8,300,000
2	Mark Kipkoech	15,000,000
3	Joshua Musyimi	13,300,000
4	Thomas Cheboi	6,615,000
5	Julius Cheche	6,297,836
6	Dennis Okungu	7,843,984
7	George Tuti	11,100,000
8	Jackline Kaziga	10,000,000
9	Jeremiah Kabiru	2,000,000
10	Lilian Wawuda	6,000,000
11	Ben Simiyu	7,100,000
12	Philemon Rono	9,000,000
13	Joseph Marembo	8,550,000
14	Theodora Ochichi	4,561,570
15	Musa Kidzuga	8,000,000
16	Nancy Kendi	10,000,000
17	Praxcides Ajiambo	3,600,000
18	Sally Kosgei	8,000,000
19	Stephen Masha	20,000,000
20	Patrick Kamore	13,950,000
21	Norah Mogaka	10,000,000
22	James Muthui	5,000,000
23	Nicodemus Oyalo Brownley	9,246,180
	Total loan disbursed	203,464,570

11. Receivables from exchange transactions

Description	2022/23		2021/22	
	Kshs.		Kshs.	
Current Receivables				
Interest Receivable	1,156,195		1,213,769	
Current loan repayment due	15,520,801		6,477,296	
Total Current Receivables	16,676,996		7,691,065	
Non-Current Receivables				
Long Term Loan Repayments Due	179,213,369		89,187,577	
Total Non-Current Receivables	179,213,369		89,187,577	
Total Receivables from Exchange Transactions	195,890,365		96,878,642	
Ageing analysis (receivable from exchange transactions)	Current FY	% of total	Comparative FY	% of total
Less than 1 year	16,676,996	9%	7,691,065	8%
Between 1-2 years	13,444,376	7%	-	%
Between 2-3 years	13,853,300	7%	-	%
Over 3 years	151,915,693	78%	89,187,577	92%
Total	195,890,365	100%	96,878,642	100%

12. Receivables from Non-Exchange transactions

Description	2022/23		2021/22	
	Kshs.		Kshs.	
Transfers from Government Exchequer	45,690,623		25,000,000	
Total Receivables from Non-Exchange Transactions	45,690,623		25,000,000	
Ageing analysis (receivable from Non-exchange transactions)	Current FY	% of total	Comparative FY	% of total
Less than 1 year	45,690,623	100%	25,000,000	100%
Total	45,690,623	100%	25,000,000	100%

The amount of Kshs.45,690,623 was transferred to the Fixed Deposit Account on July 6, 2023, but relates to the exchequer for the current period. This is an additional capital to the Scheme, thus a non-exchange receivable for the current period.

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Notes to the Financial Statements continued

13. Trade and other payables

Description	2022/23	2021/22
	Kshs.	Kshs.
Trade payables	194,734,170	95,664,873
Total trade and other payables	194,734,170	95,664,873

The Trade Payables amount is the scheme's Back-Up Account balance. The Back-Up Accounts holds funds disbursed to the loan beneficiaries. It shall, thus, have a balance equivalent to the total aggregate disbursed mortgage loan amount. The Back-Up Account also holds the loan principal repaid by the borrowers before it is transmitted to the High-Interest Account.

As at 30th June, 2023, and June 30, 2022, the Back-Up Account Balance was Kshs.194,734,170 and Kshs. 95,664,873 respectively. A Certificate of Bank Balance issued by the Fund Manager, supports the closing balances in the Free Fund Account and Back-Up Accounts at the end of the reporting period. The balance in the Back Up Account does not earn interest as specified under the agreement.

14. Revolving Fund

Description	2022/23	2021/22
	Kshs.	Kshs.
Revolving Fund as at 1 July	350,000,000	250,000,000
Mortgage Revolving Fund	45,690,623	100,000,000
Total Revolving Fund as at 30th June	395,690,623	350,000,000
Accumulated surplus (<i>Reserves</i>)	24,180,254	19,017,592
Total Funds as at 30th June, 2023	419,870,877	369,017,592

15. Net cash flows from operating activities

	2022/23	2021/22
	Kshs.	Kshs.
Surplus/ (deficit) for the year before tax	6,073,949	9,763,703
Adjusted for:		-
Income received	(25,000,000)	(1,250,361)
Income receivable	45,690,623	
Interest income receivable	1,360,229	
Decrease in tax payable	(10,160)	
Interest expense	(3,953,045)	

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Tax paid	707,253	
Ledger fees and insurances paid	713,967	
Sub-Total	25,582,815	
Working capital adjustments		-
Decrease in loan interest receivable	271,769	(1,427,964)
Increase in receivables	(9,043,505)	
Increase in income receivable (Non-Exchange Transactions)	(20,690,623)	
Increase in payables	9,043,505	
Sub-Total	(20,428,855)	
Net cash flow from operating activities	5,163,962	7,085,378

Other Disclosures

16. Financial Risk Management

The Fund's activities expose it to various financial risks, including credit and liquidity risks and the effects of changes in foreign currency. The Fund's overall risk management programme focuses on the unpredictability of changes in the business environment. It seeks to minimize 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 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, deposits with banks, trade and other receivables, and available-for-sale financial investments.

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

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

Other Disclosures Continued

d) Interest rate risk

Interest rate risk is the risk that the Fund's financial condition may be adversely affected due to changes in interest rate levels. The Fund's interest rate risk arises from bank deposits, exposing the Fund to cash flow interest rate risk. The interest rate risk exposure occurs 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 Scheme analyses its interest rate exposure dynamically 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, particularly foreign exchange rates, remain constant.

e) Capital risk management

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

Description	2022/23	2021/22
	Kshs.	Kshs.
Revolving fund	395,690,623	350,000,000
Accumulated surplus (<i>Reserves</i>)	24,180,253	19,017,592
Total funds	419,870,876	369,017,592
Less: Cash and bank balances	373,024,059	342,803,823
Net debt/ (excess cash and cash equivalents)	46,846,817	26,427,963
Gearing	11%	7%

Other Disclosures Continued

17. Related party balances

a) Nature of related party relationships

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

- a) The National Treasury
- b) Office of the Controller of Budget
- c) Housing Finance Company of Kenya;
- d) Mortgage Scheme Committee; and
- e) Key management personnel

b) Related party transactions

i. Transfers from related parties

Description	2022/23	2021/22
	Kshs.	Kshs.
Transfers from OCoB	45,690,623	100,000,000

18. Events after the Reporting Period

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

19. Ultimate and Holding Entity

The Entity is a Fund under the sponsorship of the Office of the Controller of Budget which is an Independent Office.

20. Currency

The financial statements are presented in Kenya Shillings (Kshs) rounded to the nearest shilling.

21. Annexes

Annex I: Progress on Follow-Up of Prior Year Auditor's Recommendations

The following is the summary of issues raised by the external auditor and management comments provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
-	-	-	-	-

The audit issues raised in the FY 2021/2022 were resolved, and the scheme financial statements were reported to present fairly in all material aspects the true financial position of the Scheme. The auditors of the Scheme, thus, issued an **unqualified audit opinion**.



CPA Pamela Okatch

ICPAK No:7884

Fund Administrator

Office of the Controller of Budget Staff Mortgage Scheme