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Hon. Kimani Ichungwāh, MP  
Leader of Majority Party

**OF** PRESENTED  
AT THE TABLE:

INZIGU MWALE

**THE AUDITOR-GENERAL**

**ON**

**STATE OFFICERS HOUSE  
MORTGAGE SCHEME FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2022**

**STATE DEPARTMENT FOR HOUSING  
AND URBAN DEVELOPMENT**



OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
REGISTRY

20 FEB 2023

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MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN DEVELOPMENT  
AND PUBLIC WORKS

*(STATE OFFICERS HOUSE MORTGAGE SCHEME FUND)*

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30<sup>TH</sup> JUNE, 2022

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

**State Officers House Mortgage Scheme Fund  
Annual Report and Financial Statements  
For the Period ended 30<sup>th</sup> June, 2022**

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**1. KEY FUND INFORMATION AND MANAGEMENT**

**a) Background information**

The State Officers House Mortgage Scheme Fund (SOHMSF) was established in 2015, through Legal Notice No. 23 of 6<sup>th</sup> March 2015 under the Public Finance Management Act. This was pursuant to guidelines provided by Salaries and Remuneration Commission on mortgage benefit for State Officers and other Public Servants in December, 2014. The establishment of the Fund is in line with the National Housing Policy for Kenya 2004 (Sessional Paper No. 3). The policy among other things, called for employers to assist their employees to acquire housing. The Cabinet Secretary in charge for the National Treasury is responsible for the general policy and strategic direction of the SOHMSF whereas the Principal Secretary is the administrator of the Fund. The Cabinet Secretary to the National Treasury on July 2015 approved full delegation of the operations and management of the SOHMSF on to the Civil Servants Housing Scheme Fund (CSHSF).

The Constitution under Section 42 and 43 accords every person the right to a clean and healthy environment, and the right to accessible and adequate housing, and to reasonable standards of sanitation. The Salaries and Remuneration Commission on 17<sup>th</sup> December, 2014 set and advised on the car and mortgage benefits for all State Officers and other Public Officers in Kenya.

**b) Principal Activities**

The principal activities of the Fund are to provide a loan Scheme for the purchase or development of property by State Officers. The Fund is administered by the Principal Secretary, State Department for Housing and Urban Development who is the Fund Administrator. There is a Scheme Management Committee charged with the responsibility of management in accordance with laid down approved regulations, setting up a revolving Fund for the disbursement of loans, and supervising the day-to-day operations of the Fund. The Fund Manager is responsible for the day-to-day operations of the Fund.

**c) Scheme Management Committee**

The Fund is administered through the State Officers House Mortgage Scheme Fund Committee. The Accounting Officer is the Principal Secretary of the Ministry for the time being, responsible for matters related to housing. Management of the Fund is overseen by the Scheme Management Committee for the reporting period comprising:

- i. Officer administering the Fund,
- ii. Principal Secretary responsible for the National Treasury
- iii. Principal Secretary responsible for Labour, Social Security and Services

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- iv. Principal Secretary responsible for Public Service
- v. Principal Secretary responsible for Infrastructure
- vi. Principal Secretary responsible for Coordination of National Government, and
- vii. The Attorney General

Ref	Position	Name
1	Chairperson/Fund Administrator	Charles M. Hinga, CBS
2	Representing the Principal Secretary, Interior	Arthur Osiya, EBS
3	Representing the Principal Secretary, National Treasury	Hiram Mwangi Kahiro, OGW
4	Representing the Principal Secretary, Labour	Dr. William K. Kiprono, EBS
5	Representing the Principal Secretary, Infrastructure	Joyce K. Gichomo
6	Representing the Principal Secretary, Public Service and Youth	Mary Mugure Ngugi
7	Representing the Attorney General	Biliah K. Mwinzi
8	Housing Secretary(Co-opted)	Patrick Mwenda Bucha, MBS

**d) Key Management**

During the financial period under focus State Officers House and Mortgage Scheme Fund operations were undertaken by the State Officers House and Mortgage Scheme Fund Secretariat and administered by the Officer Administering the Fund – the Principal Secretary, State Department for Housing and Urban Development, Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works.

The key management personnel who held office during the financial period ended 30<sup>th</sup> June, 2022 were;

Ref	Position	Name
1	Fund Administrator	Charles M. Hinga, CBS
2	Project Manager	Arch. Julius G. Wairagu
3	Estate Manager	Mr. Boniface M. Ngochi
4	Scheme Accountant	CPA. Lucy Njeri Mbira

**e) Fiduciary Oversight Arrangements**

The overall oversight role of the Fund lies with the Parliamentary Public Accounts Committee. Pursuant to Section 18 of the Government Financial Management Act, 2004

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and Section 9 (e) of the Legal Notice No. 168 (Legislative Supplement No. 51) of 22<sup>nd</sup> December 2006.

The Fund External Auditors remain the Auditor General of the Government of Kenya. Internal audit for the Scheme is carried out by the audit section within the Ministry of Transport, Infrastructure, Housing and Urban development, State Department of Housing and Urban Development

Ref	Position	Name
1	Overall Oversight	Parliamentary Public Accounts Committee
2	Directorate Internal Audit	State Department for Housing and Urban Development
3	External Audit	Office of the Auditor General

**f) Registered Offices**

ARDHI House, Ground Floor, Ngong Road  
P.O. Box 30119-00100  
NAIROBI

**g) Fund Contacts**

Telephone: (254) 2718050  
E-mail: [cshd@housingandurban.go.ke](mailto:cshd@housingandurban.go.ke)  
Website: [www.housingandurban.go.ke](http://www.housingandurban.go.ke)

**h) Fund Bankers**

Kenya Commercial Bank Ltd,  
Milimani Branch  
A/C No.1170913962  
P O Box 69695 - 00100  
NAIROBI

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Annual Report and Financial Statements  
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**i) Independent Auditors**

Auditor General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084- 00100 GPO

Nairobi, Kenya

**j) Principal Legal Adviser**

The Attorney General

Office of the Attorney General and Department of Justice

Harambee Avenue




P.O. Box 40112

City Square 00200





Nairobi, Kenya

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**2. FUND ADMINISTRATION/MANAGEMENT COMMITTEE**

NAME	MEMBERSHIP DESCRIPTION.	KEY ACADEMIC AND PROFESSIONAL QUALIFICATION.
 <b>Charles M. Hinga, CBS</b>	Principal Secretary for State Department Housing and Urban Development and Officer Administering the Fund	Charles is a Chartered Accountant (CA) and holds a Bachelor of Commerce (Accounting) degree from Kenyatta University and a Bachelor of Accounting Science (Honors) from University of South Africa. His core competencies include project and structured finance, deal structuring and business development. Until the time of his appointment as the Principal Secretary of State Department for Housing, Urban Development and Public Works, he was the Group Chairman of an advisory boutique with presence in South Africa and Kenya.
 <b>Arthur Osiya, EBS</b>	Representing the Principal Secretary, Interior	Arthur Osiya was born in 1967. He is a Secretary/National Administration in the State Department for Interior, Ministry of Interior and Coordination of National Government. He holds Bachelor of Arts, Government and Philosophy (Hons). He has attended various training as follows: Crisis Intervention in the Community, Masha, Israel; Strategic Leadership Development Programme; He previously worked as a County Commissioner and District Commissioner. He has over 30 years of experience.
 <b>Hiram Mwangi Kahiro, OGW</b>	Representing the Principal Secretary, National Treasury.	Born on 22 <sup>nd</sup> April, 1972, Mr Kahiro is currently the Secretary, Administration at The National Treasury where he heads the Administration and Support Services Department. He is also the Ag CEO, State Officers and Public Officers Motor Car Loan Scheme Fund of the National Government. He also represents the Cabinet Secretary as a Board Member of the Witness Protection Agency and the Chuka University Council. Mr Kahiro holds an MA and BA from The University of Nairobi.  Mr Kahiro started his career as a District Officer and rose through the ranks to become a County Commissioner. In 2017, he was seconded to Nyandarua County Government where he served for three years as a County Secretary and Head of Public Service.  He has worked in Public Administration for over 25 years.

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	<p>Representing the Principal Secretary, Labour</p>	<p>Dr. William K. Kiprono is the Secretary of Administration for the State Department for Labour. He holds a Doctorate Degree (PhD) in Educational Management. He has a wealth of experience in the civil service spanning 31 years.</p>
	<p>Representing the Principal Secretary, Infrastructure</p>	<p>Mrs Joyce K. Gichomo is Director ,Human Resource Management and Development, State Department for Infrastructure. She holds Master of Business Administration in Human Resource Management and Bachelor of Commerce. She is a registered Full member of the Institute of Human Resource Management. She has attended Strategic Leadership Programme among other senior management courses. She is a Human Resource Practitioner with over 32 years' experience.</p>
	<p>Representing the Principal Secretary State Department of Public Service and Youth</p>	<p>Mrs Mary Mugure Ngugi is a Director Human Resource Management in State Department of Public Service. She holds a Bachelor Degree (Arts), Master's Degree and a Postgraduate Diploma in Human Resource Management. She has attained professional development courses locally, regionally and internationally. She has served the Public Service in various capacities for 28 years. She has attended Strategic Leadership Development Programme. Mrs Ngugi is a member of the Institute of Human Resource Management.</p>
	<p>Representing the Attorney General</p>	<p>Biliah is an advocate of the High Court of Kenya with over 15 years post admission experience. She holds a Bachelor of Laws (LLB,Hons) degree and from Moi University and a Post Graduate Diploma in Legal Studies from the Kenya School of Law. She is a member of the Law Society of Kenya. Biliah is a Deputy Chief State Counsel at the Office of the Attorney General and Department of Justice, currently under the Public Trustee Division where she heads the Trusts Section</p>

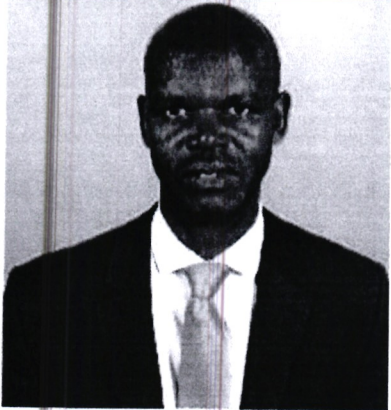


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	Housing Secretary	<p>Patrick Bucha was born in 1964. He is Secretary, Housing in the State Department for Housing and Urban Development.</p> <p>He holds a Master of Arts in Building Management, Bachelor of Arts in Building Economics and currently undertaking PhD in Leadership and Governance.</p> <p>He is a registered Quantity Surveyor with Board of Registration for Architects and Quantity Surveyors. He has 28 years of experience.</p>
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**Patrick Mwenda Bucha, MBS**

**State Officers House Mortgage Scheme Fund  
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**3. SECRETARIAT/KEY MANAGEMENT MEMBERS OF THE STATE OFFICERS HOUSE MORTGAGE SCHEME FUND (SOHMSF)**

NAME	AREA OF RESPONSIBILITY	KEY ACADEMIC AND PROFESSIONAL QUALIFICATION.
 <b>Arch. Julius G. Wairagu</b>	Project Manager	Bachelor of Architecture Registered Architect with the Board of Registration for Architects and Quantity Surveyors
 <b>Mr. Boniface M. Ngochi</b>	Estate Manager	<ul style="list-style-type: none"> <li>• MA Planning (Urban &amp; Regional Planning)</li> <li>• BA(Hons)Land Economics</li> <li>• Member of the Institution of Surveyors of Kenya (MISK)</li> </ul>
 <b>CPA. Lucy Njeri Mbira</b>	Scheme Accountant	<ul style="list-style-type: none"> <li>• MBA(Finance)</li> <li>• B Com (Accounting)</li> <li>• CPA(K)</li> <li>• Member Institute of Certified Public Accountants ICPAK</li> </ul>

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For the Period ended 30<sup>th</sup> June, 2022**

**4. PRINCIPAL SECRETARY'S STATEMENT**

The Constitution under Section 42 and 43 accords every person the right to a clean and healthy environment, and the right to accessible and adequate housing, and to reasonable standards of sanitation. The Salaries and Remuneration Commission on 17<sup>th</sup> December, 2014 set and advised on the car and mortgage benefits for all State Officers and other Public Officers in Kenya. The establishment of the fund is in line with the National Housing Policy for Kenya 2004 (Sessional Paper No. 3). The policy among other things called for employers to assist their employees to acquire housing.

The Public Finance Management (State Officers House Mortgage Scheme Fund) Regulations, 2015 provide regulations on the administration of the Fund. To ensure adequate and affordable access to housing to State Officers, the State Officers House Mortgage Scheme Fund regulations are in the process of being amended to incorporate the following;

- i. To introduce equity release for development
- ii. Give administrative powers to the committee to facilitate the mortgage process

The Fund has continued to deliver the principle objective and the attached Financial Reports and Financial Statements present the accounting and financial operations of the Fund for the year ended 30<sup>th</sup> June, 2022. I accept responsibility for the maintenance of accounting records which may be relied upon in preparation of the financial statements, as well as adequate systems of internal control. I further accept responsibility for the attached annual accounts, which have been prepared in conformity with internationally accepted accounting standards and appropriate government financial regulations and procedures.

I am of the opinion that the attached appropriations, reports and other financial statements present fairly financial state of affairs of the State Officer House Mortgage Scheme Fund Vote as at 30<sup>th</sup> June, 2022.

  
.....  
**Charles M. Hinga, CBS**

The Principal Secretary,  
State Department for Housing and Urban Development  
15<sup>th</sup> December, 2022

**State Officers House Mortgage Scheme Fund  
Annual Report and Financial Statements  
For the Period ended 30<sup>th</sup> June, 2022**

**5. REPORT OF THE FUND MANAGER**


The Scheme Management Committee is charged with the responsibility of managing the Fund in accordance with The Public Finance Management (State Officers House Mortgage Scheme Fund) Regulations, 2015 which set up a revolving Fund for the disbursement of loans. The Fund Manager has the responsibility of supervising the day-to-day operations of the Fund. During the Financial year ended 30<sup>th</sup> June, 2022, the Scheme continued to provide house mortgage to State officers in line with the requirements of the objectives of the Fund. The Fund has accomplished the following by the end of the financial year:

1. 189 applications were completed, returned with support documents and recommended to bank for processing of mortgage loans worth about Kshs.5.2 billion
2. 153 Loans fully disbursed to applicants' worth about Kshs.3.95 billion
3. 8 applications worth about Kshs.216 million were approved pending disbursement
4. 13 applications pending approval

The Fund has had its own fair share of challenges. The main challenge being that The Public Finance Management (State Officers House Mortgage Scheme Fund) Regulations 2015 which regulate on the management of the Fund do not cover the following main areas; a) Purchase & improvement of house and b) Purchase of plot for future development of a residential house I am of the opinion that the Regulations need to be amended to cover the above-mentioned areas so that the objectives of the Fund can be met with minimal challenges. Other areas of consideration include;

1. Requirement for unexpired lease term of at least 45 years
2. Comprehensive list of State Officers in the Republic
3. Termination of employment or expiry of term of a State Officer when the loan is being processed
4. Applications which are for plot purchase
5. Inadequacy of Funds
6. Arrears by officers whose terms have expired
7. Utilization of gratuity for loan repayment
8. Unforeseen impacts of COVID-19

The Fund continues to meet its strategic objectives as outlined in the financial reports and Statements for the year ended 30<sup>th</sup> June, 2022.

  
.....

**Arch. Julius G. Wairagu**

Acting Fund Manager

State Officers House Mortgage Scheme Fund

15<sup>th</sup> December, 2022

**State Officers House Mortgage Scheme Fund  
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**6. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES**

**Introduction**

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

The establishment of the Fund is in line with the National Housing Policy for Kenya 2004 (Sessional Paper No. 3). The policy among other things called for employers to assist their employees to acquire housing. The government of Kenya under the Affordable Housing Programme is working with the Scheme Fund to meet its housing Agenda as one of the Strategic Objectives for the government.

**Pre-determined Objectives**

The State Officers House Mortgage Scheme Fund has the objective of providing a loan Scheme for purchase or development of property by the State Officers. The Fund develops its annual work plans based on the above Government agenda and objectives. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The State Officers House Mortgage Scheme Fund achieved its performance targets set for the Financial Year 2021/2022 based on the applications received, applications processed and the applications which were under processing as at 30<sup>th</sup> June, 2022

**State Officers House Mortgage Scheme Fund  
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**7. CORPORATE GOVERNANCE STATEMENT**

In accordance with the principles of good governance, each Scheme Management Committee/Secretariat member undertakes to always act in the best interest of the Fund and exercises his/her powers in the execution of duties in good faith and acts with care and prudence

**Advisory Committee of the Fund**

The Fund is managed and administered through an established advisory committee of the Fund within the National Treasury Comprising of: The Director of Administration, Director of Budgetary Supply, Director of Human Resources and Director of Fiscal Decentralization

**Responsibilities of the Advisory Committee**

Ultimately, the advisory committee determines the Fund's housing development and financing proposals, approve criteria for beneficiaries of the Fund and such other duties as may be directed by the Cabinet Secretary for the proper management of the Fund,

The Advisory committee has delegated the Authority for the day to day management of the scheme to the State Officer House Mortgage Scheme Management Committee appointed by the Cabinet Secretary. However, it retains the overall responsibility of the Fund's Financial Performance, Compliance with laws and Regulations and monitoring of the operations as well as ensuring competent management of the Fund's business.

**Oversight Role**

The Advisory Committee through the Scheme Management Committee provides Strategic direction with a focus on consistent business performance in an atmosphere of transparency and accountability whilst also reviewing and monitoring proper corporate governance

The advisory Committee retains full and Effective control over the Fund and Monitors the management's implementation of the objectives of the Fund. It ensures ethical behaviour and compliance with the relevant laws and regulations, audit and accounting principles, corporate policies and procedures and the code of Ethics

**State Officers House Mortgage Scheme Fund  
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For the Period ended 30<sup>th</sup> June, 2022**

**8. MANAGEMENT DISCUSSION ANALYSIS**

**Operations and Financial Performance**

The State Officers House Mortgage Scheme Fund recorded good financial Performance results for the year ended 30<sup>th</sup> June, 2022

The Loan performance in respect to loans disbursed and loan repayments for the year recorded an improvement and the Fund is looking forward to facilitating more State Officers to have house mortgage loans in the coming financial year

**Opportunities**

1. Devolution: Devolution continued to be a great opportunity since more State Officers are qualifying for state officers house mortgage scheme loans
2. Affordable Housing Programme: The government provides the goodwill and the guiding principle towards achievement of affordable housing for all.
3. The Constitution of Kenya, 2010: The Constitution under Section 42 and 43 accords every person the right to a clean and healthy environment, and the right to accessible and adequate housing, and to reasonable standards of sanitation.

**Challenges**

The main challenge is that The Public Finance Management (State Officers House Mortgage Scheme Fund) Regulations 2015 which regulate on the management of the fund do not cover the following main areas;

- a) Purchase & improvement of house
- b) Purchase of plot for future development of a residential house

**Compliance with Statutory Requirements**

The State Officers House and Mortgage Scheme Fund adheres to the tenets of the Constitution of Kenya, 2010 and the relevant statutes, including but not limited to the Public Finance Management Act, 2012, The Public Finance Management (State Officers House Mortgage Scheme) Fund Regulations, 2015 and the Public Procurement and Asset Disposal Act, 2015

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**9. ENVIRONMENTAL AND SUSTAINABILITY REPORTING**

**Environmental, Social Responsibility Activities**

During the financial year ended 30<sup>th</sup> June, 2022 the Scheme Management Committee did not carry out any environmental and sustainability projects. However, the Fund through facilitation of Loans to State officers ensures that conservation and sustainability of the environment is adhered to through monitoring the developments through the bank administering the Loan on behalf of the Scheme Fund.

**State Officers House Mortgage Scheme Fund  
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For the Period ended 30<sup>th</sup> June, 2022**

**10. REPORT OF THE SCHEME/FUND MANAGEMENT COMMITTEE**

The Scheme/Fund Management Committee submit their report together with the audited financial statements for the year ended June 30, 2022, which show the state of the Fund affairs.

**Principal activities**

The principal activities of the Fund are to provide a loan Scheme for the purchase or development of property by State Officers. The Fund is administered by the Principal Secretary, State Department for Housing and Urban Development who is the Fund Administrator. There is a Scheme Management Committee charged with the responsibility of management of the fund in accordance with laid down approved regulations, setting up a revolving Fund for the disbursement of loans, and supervising the day-to-day operations of the Fund. The Fund Manager is responsible for the day-to-day operations of the Fund

**Performance**

The performance of the Fund for the year ended June 30, 2022, is set out on page 1 to 5

**Fund Administration/Management Committee**

The members of the Fund Administration/Management Committee who served during the year are shown on page vii to ix

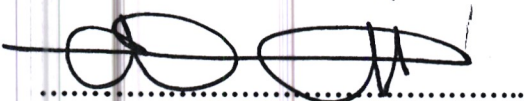
**Auditors**

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.

**Going concern**

Nothing has come to the attention of the management of the Fund to indicate that the Fund will not remain a going concern for at least the next twelve (12) months from the date of this statement.

By Order of the Committee,\



**Chair of the Scheme/Fund Management Committee**

**State Officers House Mortgage Scheme Fund  
Annual Report and Financial Statements  
For the Period ended 30<sup>th</sup> June, 2022**

**11. STATEMENT OF MANAGEMENT RESPONSIBILITIES**

Section 84 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a Fund established by The Public Finance Management (State Officers House Mortgage Scheme) Fund Regulations, 2015 shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Administrator of the Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2022. 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 and The Public Finance Management (State Officers House Mortgage Scheme) Fund 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 Fund's transactions during the financial year ended June 30, 2022, and of the Fund's financial position as at that date.

The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Administrator of the Fund has assessed the Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements.

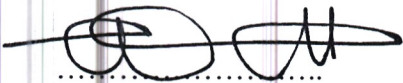
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For the Period ended 30<sup>th</sup> June, 2022**

**Going Concern**

Nothing has come to the attention of the Administrator to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The Fund's Financial Statements were approved by the Scheme Management Committee and signed on its behalf by:



Charles M. Hinga, CBS  
Principal Secretary  
Date: 15<sup>th</sup> December, 2022



Julius G. Wairagu  
Ag. Director  
Date: 15th December, 2022



CPA Lucy Njeri Mbira  
ICPAK Member 15517  
Date: 15th December, 2022

# REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



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P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON STATE OFFICERS HOUSE MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE, 2022 - STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT**

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### **PREAMBLE**

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal 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**

#### **Adverse Opinion**

I have audited the accompanying financial statements of State Officers House Mortgage Scheme Fund set out on pages 1 to 22, which comprise of the statement of financial

position as at 30 June, 2022, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the State Officers House Mortgage Scheme Fund as at 30 June, 2022 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Public Finance Management (State Officers House Mortgage Scheme Fund) Regulations, 2015 and the Public Finance Management Act, 2012.

### **Basis for Adverse Opinion**

#### **1. Inaccuracy of the Financial Statement**

The statement of cash flows reflects loan disbursements paid out during the year of Kshs.259,127,644. However, the loan disbursement schedule as at 30 June, 2022 reflects loans disbursed amounting to Kshs.277,550,363 resulting to unexplained variance of Kshs.18,422,719.

In the circumstances, the accuracy and fair presentation of the cash flow statement could not be confirmed.

#### **2. Non - Performing Loans/Mortgage Arrears**

The statement of financial position and as disclosed in Note 18(a) to the financial statements reflects current receivables of Kshs.34,430,239 comprising of 4<sup>th</sup> quarter mortgage interest of Kshs.15,772,442 and mortgage arrears of Kshs.18,657,797. Further, scrutiny of the non-performing loans/mortgage arrears revealed that, arrears amounting to Kshs.14,035,549 representing 75% of the total mortgage arrears were due from three (3) beneficiaries and had been defaulted for a period of more than one (1) year. The Scheme Management Committee and the Institution administering the loans (KCB) did not demonstrate measures taken to recover the loans from the defaulters.

In the circumstances, the recoverability of the long outstanding mortgage arrears of Kshs.18,657,797 is doubtful.

#### **3. Unsupported Board/Council Expenses**

The statement of financial performance reflects Board expenses amounting to Kshs.2,364,960, which includes travel and accommodation expenditure of Kshs.2,120,960 in respect of travel to Malaysia for benchmarking by the Scheme

Management Committee. However, the expenditure was not supported by an approved annual workplan. Additionally, the benchmarking report provided for the visit to Malaysia was not signed and did not have the addressee. Further, it was noted that two officers who attended the benchmarking were not members of the Scheme Management Committee but staff of the Scheme Fund. The Management did not explain why their respective expenditure was charged to Council expenses.

In the circumstances, the accuracy and validity of the travel and accommodation expenditure of Kshs.2,120,960 could not be confirmed.

#### **4. Unsupported Expenditure -Travelling and Accommodation**

The statement of financial performance reflects use of goods and services amounting to Kshs.5,528,280, which includes travelling and accommodation amount of Kshs.2,000,000 whose justification was not provided. Further, some activities on this expenditure were not related to the Fund as they were in respect of inspections of projects under the Civil Servants Scheme Fund which is a separate entity.

In the circumstances, the accuracy and validity of travel and accommodation expenditure amounting to Kshs.2,000,000 could not be confirmed.

#### **5. Trade and other Payables - Misstatement**

The statement of financial position and as disclosed in Note 19 to the financial statements reflects trade and other payables balance of Kshs.306,000. However, the Management has explained that this amount relates to the National Environment Management Authority (NEMA) remittances erroneously received in the State Officers Fund. Review of the supporting schedule indicates that the balances dates back to the year 2019. The amount is not reflected in the financial statements of NEMA and it is not clear why it has taken long to refund the balance.

In the circumstances, the accuracy and validity of the trade and other payables balance of Kshs.306,000 could not be confirmed.

#### **6. Unsupported Outstanding Loans Balance**

The statement of financial position reflects receivables from exchange transactions balance amounting to Kshs.2,724,901,746 comprising of current proportion and Long term receivables from exchange transactions of Kshs.34,430,239 and Kshs.2,690,471,507 respectively. This balance represents outstanding loans by State Officers as at 30 June, 2022. However, the Management did not provide movement schedules of individual loans from the opening balance of Kshs.2,978,708,724, additions for the year and repayments and interest to support the closing balance of Kshs.2,724,901,746. Further, Management did not provide copies of fully charged title deeds for sampled loans totalling to Kshs.615,827,616 issued to nineteen (19) State Officers.

In the circumstances, the accuracy and validity of receivables from exchange transactions (outstanding loans) balance of Kshs.2,724,901,746 could not be confirmed.

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

### **Key Audit Matters**

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

### **Other Matter**

#### **Low Uptake of Mortgage Funds**

During the year under review, the Fund had a development budget for loans to State Officers of Kshs.1,000,000,000. Review of the loans disbursement schedule as at 30 June, 2022 revealed that loan disbursements during the year amounted to Kshs.277,550,363 or 28% of the budget. Therefore, Kshs.722,449,637 or 72% of the budgeted funds for mortgage were not taken up by State Officers.

In the circumstances, the slow uptake of loans is an indication that the overall objectives of the Fund was not achieved.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matter discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **Lack of a Substantive Committee to Manage the Fund**

The Cabinet Secretary, The National Treasury vide a letter reference No. ZZ/MOF 26/03 "A" (59) dated 15 May, 2015 appointed, on interim basis, the Civil Servants House Mortgage Scheme Fund Committee to facilitate state officers in the National Government to access house mortgage facility through the State Officers House Mortgage Scheme Fund. However, no substantive Committee has been appointed and there is no evidence that the interim committee has been confirmed. This is contrary to Regulation 7(1) of the Public Finance Management (State Officers House Mortgage Scheme Fund)

Regulations, 2015 which states that notwithstanding Paragraph 6(1), the Cabinet Secretary may appoint a committee or board of an existing House Mortgage Scheme Fund in the public service to manage the State Officers House Mortgage Scheme Fund.

In the circumstances, the Fund was in breach of the Regulations.

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, because of the significance of the matter discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Maintenance of Manual Records without Adequate Backup**

Review of the Fund's operations revealed that the financial and accounting records are managed and maintained manually. Financial reports, ledgers, trial balance, budgets and financial statements are prepared manually and there was no evidence of backup. Therefore, the Fund's records are prone to errors and loss.

In the circumstances, the Fund's operating environment is exposed to interruptions and loss of critical information in case of disaster.

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material

misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

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

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

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

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

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

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

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

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness

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

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

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.

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

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

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

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

20 February, 2023

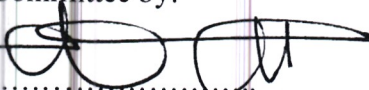
State Officers House Mortgage Scheme Fund  
Annual Report and Financial Statements  
For the period ended 30<sup>th</sup> June, 2022

**14. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2022**


	Notes	2021-2022 Kshs	2020-2021 Kshs
<b>Revenue from Non-exchange transactions</b>			
Transfers from Other Government Entities	6	0	0
<b>Revenue from exchange transactions</b>			
Mortgage Interest	7	64,498,411.00	63,674,197
Rental revenue from facilities and equipment	8	0	0
Finance Income –investment interest	9	20,749,780.85	18,843,889
Other Incomes	10	2,596,935.35	1,955,991
<b>Total Revenue</b>		<b>87,845,127.20</b>	<b>84,474,077</b>
<b>Expenses</b>			
Depreciation and amortization expense	11	0	0
Board/Council expenses	12	2,364,960.00	1,590,000
Use of goods and services	13	5,528,280.00	4,442,379
Repairs and maintenance	14	118,500.00	29,100
Contracted services	15	0	0
Grants and subsidies	16	0	0
<b>Total expenses</b>		<b>8,011,740.00</b>	<b>6,061,479.00</b>
<b>Other gains/(losses)</b>		0	0
<b>Surplus before tax</b>		<b>79,833,387.20</b>	<b>78,412,598.00</b>
Taxation		0	(0)
<b>Surplus/(deficit) for the period/year</b>		<b>79,833,387.20</b>	<b>78,412,598.00</b>
Remission to National Treasury		0	0
<b>Net Surplus for the year</b>		<b>79,833,387.20</b>	<b>78,412,598.00</b>

The notes set out on pages 7 to 19 form an integral part of these Financial Statements.

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Scheme Management Committee by:

  
.....  
Charles M. Hinga, CBS  
Principal Secretary

Date: 15<sup>th</sup> December, 2022

  
.....  
Julius G. Wairagu  
Ag. Director

Date: 15<sup>th</sup> December, 2022

  
.....  
CPA Lucy Njeri Mbira  
ICPAK Member 15517

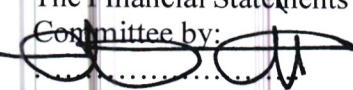
Date: 15<sup>th</sup> December, 2022

**State Officers House Mortgage Scheme Fund  
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For the Period ended 30<sup>th</sup> June, 2022**

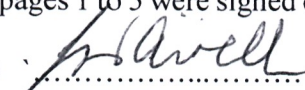
**15. STATEMENT OF FINANCIAL POSITION AS AT 30<sup>th</sup> JUNE, 2022**

	Notes	2021-2022	2020-2021
		Kshs	Kshs
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	17	514,702,736.00	440,159,075.00
Current portion of receivables from exchange transactions	18(a)	34,430,239.00	16,102,341.00
<b>Total Current Assets</b>		<b>549,132,975.00</b>	<b>456,261,416.00</b>
<b>Non-Current Assets</b>			
Long term receivables from exchange transactions	18(b)	2,690,471,507.00	2,962,606,383.00
<b>Total Non- Current Assets</b>		<b>2,690,471,507.00</b>	<b>2,962,606,383.00</b>
<b>Total Assets</b>		<b>3,239,604,482.00</b>	<b>3,418,867,799.00</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	19	306,000.00	275,060.00
<b>Total Current Liabilities</b>		<b>306,000.00</b>	<b>275,060.00</b>
<b>Non-Current Liabilities</b>			
Non-current employee benefit obligation		0	0
<b>Total Non- Current Liabilities</b>		<b>0</b>	<b>0</b>
<b>Total Liabilities</b>		<b>306,000.00</b>	<b>275,060.00</b>
<b>Net assets</b>		<b>3,239,298,482.00</b>	<b>3,418,592,739.00</b>
<b>Capital Reserves</b>			
Accumulated surplus		159,465,094.80	340,180,141.00
Surplus/(deficit) for the period		79,833,387.20	78,412,598.00
Capital Revolving Fund		3,000,000,000	3,000,000,000.00
<b>Total Net Assets and Liabilities</b>		<b>3,239,298,482.00</b>	<b>3,418,592,739.00</b>

The notes set out on pages 7 to 19 form an integral part of these Financial Statements.  
The Financial Statements set out on pages 1 to 5 were signed on behalf of the Scheme Management Committee by:

  
.....  
Charles M. Hinga, CBS  
Principal Secretary

Date: 15th December, 2022

  
.....  
Julius G. Wairagu  
Ag. Director

Date: 15th December, 2022

  
.....  
CPA Lucy Njeri Mbira  
ICPAK Member 15517

Date: 15th December, 2022

**State Officers House Mortgage Scheme Fund  
Annual Report and Financial Statements  
For the Period ended 30<sup>th</sup> June, 2022**

**16. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30<sup>th</sup> JUNE, 2022**

Description	Revolving Capital Reserve	Revenue Reserve	Accumulated surplus	Total
	Kshs.	Kshs.	Kshs.	Kshs.
<b>As at 1 July 2020</b>	3,000,000,000	0	340,180,141	3,340,180,141
Surplus/(deficit) for the period	0	0	78,412,598	78,412,598
Funds received during the year	0	0	0	0
Transfers	0	0	(0)	0
<b>As at 30 June 2021</b>	<b>3,000,000,000</b>	<b>0</b>	<b>418,592,739</b>	<b>3,418,592,739</b>
<b>Balance as at 1 July 2021</b>	<b>3,000,000,000</b>	<b>0</b>	<b>418,592,739</b>	<b>3,418,592,739</b>
Surplus/(deficit) for the period	0	0	79,833,387.20	79,833,387.20
Funds received during the year	0	0	0	0
Transfers	0	0	(259,127,644)	(259,127,644)
<b>As at 30 June 2022</b>	<b>3,000,000,000</b>	<b>0</b>	<b>239,298,482</b>	<b>3,239,298,482</b>

The notes set out on pages 7 to 19 form an integral part of these Financial Statements.  
The Financial Statements set out on pages 1 to 5 were signed on behalf of the Scheme Management Committee by:



Charles M. Hinga, CBS  
Principal Secretary  
Date: 15<sup>th</sup> December 2022



Julius G. Wairagu  
Ag. Director  
Date: 15<sup>th</sup> December 2022



CPA Lucy Njeri Mbira  
ICPAK Member 15517  
Date: 15<sup>th</sup> December 2022

State Officers House Mortgage Scheme Fund  
Annual Report and Financial Statements  
For the period ended 30<sup>th</sup> June, 2022

**17. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE, 2022**

Description	Note	2021/22 Kshs.	2020/21 Kshs.
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Mortgage Interest	7	64,498,411.00	63,674,197.00
Finance Income- Investment Interest	9	20,749,780.85	18,843,889.00
Other Incomes	10	2,596,935.35	1,955,991.00
<b>Total Revenue</b>		<b>87,845,127.20</b>	<b>84,474,077.00</b>
<b>Payments</b>			
Board/Council expenses	11	2,364,960.00	1,590,000.00
Use of goods and services	12	5,528,280.00	4,442,379.00
Repairs and maintenance	13	118,500.00	29,100.00
<b>Total expenses</b>		<b>8,011,740.00</b>	<b>6,061,479.00</b>
Surplus/(deficit) for the period		<b>79,833,387.20</b>	<b>78,412,598.00</b>
<b>Adjusted for:</b>			
Current portion of receivables from exchange transactions	18(a)	(18,327,898.00)	(5,834,478.00)
Trade and other payables	19	30,940.00	275,060.00
<b>Net cash flow from operating activities</b>		<b>61,536,429.20</b>	<b>72,853,180.00</b>
<b>Cash flows from investing activities</b>			
Proceeds from loan principal repayments		272,134,876.00	(287,910,256.00)
Loan disbursements		(259,127,644.00)	(0)
<b>Net cash flows used in investing activities</b>		<b>13,007,232.00</b>	<b>(287,910,256.00)</b>
<b>Cash flows from financing activities</b>			
Receipts into the mortgage revolving fund		0	0
<b>Net cash flows used in financing activities</b>		<b>(0)</b>	<b>(0)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>74,543,661.00</b>	<b>(215,057,076.00)</b>
Cash and cash equivalents at 1 July	17	440,159,075	655,216,152.00
<b>Cash and cash equivalents at 30 June</b>		<b>514,702,736.00</b>	<b>440,159,075.00</b>

*(The statement of Cash flow is presented using the direct method)*

The notes set out on pages 7 to 19 form an integral part of these Financial Statements.

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Scheme Management Committee by:

  
.....  
Charles M. Hinga, CBS

Principal Secretary

Date: 15th December, 2022

  
.....  
Julius G. Wairagu

Ag. Director

Date: 15th December, 2022

  
.....  
CPA Lucy Njeri Mbira

ICPAK Member 15517


Date: 15th December, 2022


State Officers House Mortgage Scheme Fund  
Annual Report and Financial Statements  
For the Period ended 30<sup>th</sup> June, 2022


18. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR  
THE YEAR ENDED 30<sup>th</sup> JUNE, 2022

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilisation
	Kshs	Kshs	Kshs	Kshs	Kshs	
	A	b	C=(a+b)	d	e=(c-d)	F=d/c
<b>Revenue</b>						
Transfers from other governments entities	0	-	0	0	0	0
Mortgage Interest	64,498,411.00	(0)	64,498,411.00	64,498,411.00	0	100%
Interest on investment	20,749,780.85	-	20,749,780.85	20,749,780.85	0	100%
Other Incomes	2,596,935.35	-	2,596,935.35	2,596,935.35	0	100%
<b>Total Revenue</b>	<b>87,845,127.20</b>		<b>87,845,127.20</b>	<b>87,845,127.20</b>	<b>0</b>	<b>100%</b>
<b>Expenses</b>						
Use of goods and services	8,250,000.00	-	8,250,000.00	5,528,280.00	2,721,720.00	67%
Boards/Council	2,500,000.00	(0)	2,500,000.00	2,364,960	135,040.00	94.5%
Depreciation and amortization expense	0	(0)	0	0	-	-
Repairs and maintenance	630,000.00	0	630,000.00	118,500.00	511,500.00	18.8%
Contracted services	0	0	0	0	0	-
Grants and subsidies	0	0	0	0	-	-
<b>Total</b>	<b>11,380,000</b>	<b>(0)</b>	<b>11,380,000</b>	<b>8,011,740</b>	<b>3,368,260.00</b>	<b>70.4%</b>
<b>Surplus for the period</b>				<b>79,933,387.20</b>		

The notes set out on pages 7 to 19 form an integral part of these Financial Statements.  
The Financial Statements set out on pages 1 to 5 were signed on behalf of the Scheme Management Committee by:

  
Charles M. Hinga, CBS  
Principal Secretary  
Date: 15th December, 2022

  
Julius G. Wairagu  
Ag. Director  
Date: 15th December, 2022

  
CPA Lucy Njeri Mbira  
ICPAK Member 15517  
Date: 15th December, 2022

**State Officers House Mortgage Scheme Fund  
Annual Report and Financial Statements  
For the Period ended 30<sup>th</sup> June, 2022**

**19. NOTES TO THE FINANCIAL STATEMENT**

**1. General Information**

The State Officers House Mortgage Scheme Fund is established by and derives its authority and accountability from the Public Finance Management (State Officers House Mortgage Scheme Fund) Regulations, 2015. The Fund is wholly owned by the Government of Kenya and is domiciled in Kenya. The Fund's principal activities are to provide a loan Scheme for the purchase or development of property by State Officers

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

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. The preparation of 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 the process of applying the Fund's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of The State Officers House Mortgage Scheme Fund

The financial statements have been prepared in accordance with the PFM Act, 2012, The Public Finance Management (State Officers House Mortgage Scheme Fund) Regulations, 2015 and International Public Sector Accounting Standards (IPSAS). 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 30 June 2022**

IPSASB deferred the application date of standards from 1<sup>st</sup> January 2022 owing to Covid 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1<sup>st</sup> January 2023.

**Notes to the Financial Statements (Continued)**

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30th June 2022.**

Standard	Effective date and impact
IPSAS 41: Financial Instruments	<b>Applicable: 1<sup>st</sup> January 2023:</b> The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and

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Standard	Effective date and impact:
	<p>useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of a Fund's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between a Fund's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul>
<p><b>IPSAS 42:</b> Social Benefits</p>	<p><b>Applicable: 1<sup>st</sup> January 2023</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Fund 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"> <li>(a) The nature of such social benefits provided by the Fund;</li> <li>(b) The key features of the operation of those social benefit schemes; and</li> <li>(c) The impact of such social benefits provided on the Fund's financial performance, financial position and cash flows.</li> </ul>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p><b>Applicable: 1st January 2023:</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</li> </ul>

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Standard	Effective date and impact:
	<p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>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>
Other improvements to IPSAS	<p><b>Applicable 1<sup>st</sup> January 2023</b></p> <ul style="list-style-type: none"> <li>• <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i></li> </ul> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> <li>• <i>IPSAS 39: Employee Benefits</i></li> </ul> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> <li>• <b>IPSAS 29: Financial instruments: Recognition and Measurement</b> Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1<sup>st</sup> January 2023.</li> </ul>
IPSAS 43	<p><b>Applicable 1<sup>st</sup> January 2025</b></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 cash flows of the Fund.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>
IPSAS 44: Non-Current Assets Held for Sale and Discontinued Operations	<p><b>Applicable 1<sup>st</sup> January 2025</b></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: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of</p>

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Standard	Effective date and impact:
	financial position and the results of discontinued operations to be presented separately in the statement of financial performance.

**iii. Early adoption of standards**

The Fund did not early – adopt any new or amended standards in the year 2021/22.

**4. Summary of 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.

**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.

**b. Budget information**

The original budget for 2021/22 Financial Year was approved by the Scheme Management Committee. 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 Fund'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

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differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts as per the statement of financial performance has been presented as part of the Financial Statements

**c. Property, plant, and equipment (PPE)**

All property, plant and equipment are stated at Net book value (cost less accumulated depreciation and impairment losses). Depreciation is charged on the straight-line basis using the following annual rates;

Land and buildings	2.5%
Computers and Accessories	25%
Motor Vehicles	25%
Office Equipment	25%
Furniture and Fittings	10%

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 major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

**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 date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite.

**e. Financial instruments**

**1) Financial assets**

***Initial recognition and measurement***

Financial assets within the scope of IPSAS 29 Financial Instruments; Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-

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to-maturity investments, or available-for-sale financial assets, as appropriate. The Fund determines the classification of its financial assets at initial recognition.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

***Held-to-maturity***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Fund has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, with less impairment. Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

***Impairment of financial assets***

The Fund assesses at each reporting date whether there is objective evidence that a financial asset or a Fund of financial assets is impaired. Management then follows the procedure required by Regulation 145 of the PFM Act. A financial asset of the Fund is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (*an incurred 'loss event'*) and that loss event has an impact on the estimated future cash flows of the Fund that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors of the Fund are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

**2) Financial liabilities**

***Initial recognition and measurement***

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Fund determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized

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initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

**f) 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.

**g) 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. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**h) Nature and purpose of reserves**

The Fund creates and maintains reserves in terms of Revolving capital reserve and accumulated reserves

**i) 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.

**j) 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.

**k) 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. Members of key management are regarded as related parties and comprise the Directors/ Trustee, the Fund Managers, and Fund Accountant.

**l) 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

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convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

**m) Comparative figures**

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

**n) Events after the reporting period**

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

**o) Ultimate and Holding Fund**

The Fund is established by the Public Finance Management (State Officers House Mortgage Scheme Fund) Regulations, 2015 under the State Department of Housing and Urban Development. Its ultimate parent is the Government of Kenya.

**p) Currency**

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

**5. Significant judgments and sources of estimation uncertainty**

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

**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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**6) Transfers from Ministries, Departments and Agencies (MDAs)**

Name of the Entity sending the grant	Amount recognized to Statement of Financial performance KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund.	Total transfers 2020/22	Prior year 2020-2021
			KShs	KShs	KShs
State Department of Housing	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

**7) Mortgage Interest**

Mortgage Interest	2021-2022	2020-2021
	KShs	KShs
Mortgage interest KCBS & L Q1 (Jul-Sep)	18,366,091.95	15,437,925.00
Mortgage interest KCB S & L Q2 (Oct-Dec)	12,147,257.00	16,186,496.00
Mortgage interest KCB S & L Q3 (Jan-Mar)	18,212,620.00	15,947,434.00
Mortgage interest KCBS & L Q4 (Ap-Jun21)	15,772,442.05	16,102,341.00
<b>Total Mortgage Interest</b>	<b>64,498,411.00</b>	<b>63,674,197.00</b>

**8) Rental Revenue from Facilities and Equipment**

Description	2021-2022	2020-2021
	KShs	KShs
Staff Rental houses	0.00	0.00
<b>Total rentals</b>	<b>0.00</b>	<b>0.00</b>

**9) Finance Income –Investment Interest**

Description	2021-2022	2020-2021
	KShs	KShs
Cash investments and fixed deposits Q1	3,427,945.20	
Cash investments and fixed deposits Q2	4,988,219.20	
Cash investments and fixed deposits Q3	7,247,589.05	
Cash investments and fixed deposits Q4	5,086,027.40	18,843,889.00
<b>Total finance income</b>	<b>20,749,780.85</b>	<b>18,843,889.00</b>

*(These are investment interest derived from deposits on call)*

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**10) Other Incomes**

**10 (a) Bank Interest on Balances**

Description	2021-2022	2020-2021
	KShs	KShs
Interest on Credit bank balances Q1	721,977.50	230,563.00
Interest on Credit bank balances Q2	1,254,380.60	670,703.00
Interest on Credit bank balances Q3	196,792.05	297,496.00
Interest on Credit bank balances Q4	371,785.20	744,229.00
<b>Total other income</b>	<b>2,544,935.35</b>	<b>1,942,991.00</b>

*(These are Interests on credit bank balances paid quarterly by the bank).*

**10 (b) Sale of form**

Description	2021-2022	2020-2021
	KShs	KShs
Sale of form	21,000.00	13,000.00
<b>Total other income</b>	<b>21,000.00</b>	<b>13,000.00</b>

*(These are incomes realized out of sale of application forms)*

**10 (c) Other Receipts**

Description	2021-2022	2020-2021
	KShs	KShs
NEMA	31,000.00	13,000.00
<b>Total other income</b>	<b>31,000.00</b>	<b>13,000.00</b>

**11) Depreciation and Amortization Expense**

Description	2021-2022	2020-2021
	KShs	KShs
Property, plant and equipment	0	0
Intangible assets	0	0
Investment property carried at cost	0	0
<b>Total depreciation and amortization</b>	<b>0.00</b>	<b>0.00</b>

**12) Board /Council Expenses**

Description	2021-2022	2020-2021
	KShs	KShs
Chairman/Director	20,000.00	10,000.00
Sitting allowances	56,000.00	80,000.00
Medical Insurance	0.00	0.00
Induction and Training	0.00	0.00
Travel and accommodation	2,120,960.00	0.00
Secretariat	168,000.00	1,490,000.00
<b>Total</b>	<b>2,364,960.00</b>	<b>1,590,000.00</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**13) Use of Goods and Services**

<b>Description</b>	<b>2021-2022</b>	<b>2020-2021</b>
	<b>KShs</b>	<b>KShs</b>
Conference/Seminars	697,700.00	614,000.00
Official Entertainment	97,500.00	163,000.00
Transport Operating Expenses	1,188,600.00	283,679.00
Travelling and Accommodation	2,000,000.00	1,089,450.00
Advertisement, awareness	497,500.00	0.00
Publishing and printing services	197,500.00	
General office services	676,900.00	314,450.00
Telephone Expenses	0.00	2,000.00
Courier and Postal Services	0.00	764,400.00
Library expenses	25,080.00	800,000.00
Training Expenses	105,000.00	290,000.00
Supplies & accessories for computers	0.00	50,000.00
Bank Charges	18,600.00	50,000.00
Membership fee subscription	23,900.00	21,400.00
<b>Total</b>	<b>5,528,280.00</b>	<b>4,442,379.00</b>

*(Note: All expenses were charged as per the approved budget in the chart of accounts)*

**14) Repairs and Maintenance**

<b>Description</b>	<b>2021-2022</b>	<b>2020-2021</b>
	<b>KShs</b>	<b>KShs</b>
Property	0.00	0.00
Investment property – earning rentals	0.00	0.00
Equipment and machinery	22,500.00	29,100.00
Vehicles	0.00	0.00
Furniture and fittings	0.00	0.00
Supplies Computers & accessories	96,000.00	0.00
Maintenance of office	0.00	0.00
<b>Total repairs and maintenance</b>	<b>118,500.00</b>	<b>29,100.00</b>

**15) Contracted Services**

<b>Description</b>	<b>2021-2022</b>	<b>2020-2021</b>
	<b>KShs</b>	<b>KShs</b>
Actuarial valuations	0	0
Investment valuations	0	0
Property valuations	0	0
<b>Total contracted services</b>	<b>0.00</b>	<b>0.00</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**16) Grants and Subsidies**

Description	2021-2022	2020-2021
	KShs	KShs
Community development	0	0
Education initiatives and programs	0	0
Social development	0	0
Community trust	0	0
Sporting bodies	0	0
<b>Total grants and subsidies</b>	<b>0.00</b>	<b>0.00</b>

**17) Cash and Cash Equivalents**

Description	2021-2022	2020-2021
	KShs	KShs
Cashbook balances - Deposit	11,781,419.30	240,159,075
Cash book balances- Operation	2,921,316.28	6,013,081
Cash-on-hand and in transit	0.00	0.00
Short-term deposits-KCB start 30/03/22 due 30/12/22	300,000,000.00	0.00
Short-term deposits-KCB start 7 <sup>th</sup> June due 7 <sup>th</sup> Dec 2022	200,000,000.00	200,000,000
<b>Total cash and cash equivalents</b>	<b>514,702,735.58</b>	<b>440,159,075.00</b>

**Detailed Analysis of Cash and Cash Equivalents**

Financial institution	Account number	2021-2022	2020-2021
		KShs	KShs
<b>a) Current account</b>			
KCB –Operation Cashbook	1170914357	2,921,316.28	6,013,081
KCB-Deposit Cashbook	1170913962	11,781,419.30	234,145,994
<b>Sub- total</b>		<b>14,702,735.58</b>	<b>240,159,075</b>
<b>b) On - call deposits Account</b>			
Kenya Commercial bank	1170913962	500,000,000.00	200,000,000
<b>Sub- total</b>		<b>500,000,000.00</b>	<b>200,000,000</b>
<b>Grand total</b>		<b>514,702,735.58</b>	<b>440,159,075.00</b>

**18) Receivables from Exchange Transactions**

**18 (a). Current Receivables from Exchange Transactions**

	2021-2022	2020-2021
	KShs	KShs
<b>Current receivables</b>		
Mortgage Interest Q4 accrued	15,772,442.05	16,102,341.00
Other exchange debtors- mortgage arrears	18,657,796.97	0.00
<b>Total current receivables</b>	<b>34,430,239.02</b>	<b>16,102,341.00</b>

*(Note: short term receivables consist of unpaid mortgage interest and mortgage arrears)*

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**18 (b). Long- term Receivables from Exchange Transactions**

Description	2021-2022	2020-2021
	KShs	KShs
<b>Total Receivables</b>		
Service, water and electricity debtors	0.00	0
Mortgage Recoverable	2,690,471,507.00	2,962,606,383
Less: impairment allowance	(0)	(0)
Current portion transferred to current receivables	(0)	(0)
<b>Total non-current receivables</b>	<b>2,690,471,507.00</b>	<b>2,962,606,383.00</b>
<b>Total receivables (a+b)</b>	<b>2,724,901,746.02</b>	<b>2,978,708,724.00</b>

**Reconciliation for Impairment Allowance on Receivables from Exchange Transactions**

Impairment Allowance Provision	2021-2022	2020-2021
	KShs	KShs
At the beginning of the year	0	0
Additional provisions during the year	0	0
Recovered during the year	(0)	(0)
Written off during the year	(0)	(0)
At the end of the year	<b>0.00</b>	<b>0.00</b>

**19) Trade and Other Payables**

Description	2021-2022	2020-2021
	KShs	KShs
NEMA	306,000.00	275,060.00
<b>Total</b>	<b>306,000.00</b>	<b>275,060.00</b>

*(The above payables are erroneous remittance meant for rental income for Estate Department)*

**20) Investments**

Description	2021-2022	2020-2021
	KShs	KShs
<b>a) Investment in Treasury bills and bonds</b>		
<b>Financial institution</b>		
CBK	0	0
CBK	0	0
<b>Sub- total</b>	<b>0</b>	<b>0</b>
<b>b) Investment with Financial Institutions/ Banks</b>		
KCB S & L	500,000,000.00	200,000,000.00
	<b>500,000,000.00</b>	<b>200,000,000.00</b>
<b>Grand total</b>	<b>500,000,000.00</b>	<b>200,000,000.00</b>

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**Other Disclosures**

**1. Financial risk management**

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

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

**a) Credit risk**

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

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

**b) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Fund Administrator, who has built an appropriate liquidity risk management framework for the management of the Fund's short, medium, and long-term funding and liquidity management requirements. The Fund manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

**c) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the Fund on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Fund's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee of the state department of Housing and Urban development.

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**Other Disclosures (Continued)**

**d) Interest rate risk**

Interest rate risk is the risk that the Fund's financial condition may be adversely affected as a result of changes in interest rate levels. The Fund's interest rate risk arises from bank deposits. This exposes the Fund to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Fund's deposits.

***Management of interest rate risk***

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

***Sensitivity analysis***

The Fund analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

**2. Related party balances**

**a) Nature of related party relationships**

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

- a) National Government Fund
- b) Key Management/Advisory Committee
- c) Scheme Management Committee

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**ANNEXES**

**19. (A) ANNEX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**  
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

<b>Reference No. on the external audit Report</b>	<b>Issue Observations from Auditor</b>	<b>Management comments</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
SOHMF/2020/2021/(32)	Long term receivables amounting to Kshs.379,774,630 Could not be established	The management is Working in collaboration with the bank with a view of Pursuing On mortgage defaulters Who are not in good standing	<i>Not Resolved</i>	<i>In progress</i>

**Guidance Notes:**

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.



**Arch. Julius G. Wairagu**

Ag. Director

15<sup>TH</sup> December, 2022

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20. ANNEX II: INTER-FUND TRANSFERS

FUND NAME:		STATE OFFICERS HOUSE MORTGAGE SCHEME FUND		
<b>Break down of Transfers from the State Department of Housing and Urban Development</b>				
<b>FY 2020/2021</b>				
<b>a.</b>	<b>Recurrent Grants</b>			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			0	
			0	
			0	
		<b>Total</b>	<b>0</b>	
<b>b.</b>	<b>Development Grants</b>			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			0	
			0	
			0	
		<b>Total</b>	<b>0</b>	
<b>c.</b>	<b>Direct Payments</b>			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			0	
			0	
			0	
		<b>Total</b>	<b>0</b>	
<b>d.</b>	<b>Donor Receipts</b>			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			0	
			0	
			0	
		<b>Total</b>	<b>0.00</b>	

The above amounts have been communicated to and reconciled with the parent Ministry.

Arch. Julius G. Wairagu  
Ag. Director, SOHMSF



15<sup>th</sup> December, 2022

Head of Accounting Unit  
State Department Housing and  
Urban Development



15<sup>th</sup> December, 2022

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