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REPORT

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THE AUDITOR-GENERAL

ON

**COMMODITIES FUND STAFF
MORTGAGE AND CAR LOAN SCHEME**

**FOR THE FIFTEEN (15) MONTHS'
PERIOD ENDED 30 JUNE, 2019**

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

24 DEC 2024

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Commodities Fund



STAFF MORTGAGE AND CAR LOAN SCHEME

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE 15 MONTHS ENDED
30TH JUNE 2019**

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

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Commodities Fund Staff Mortgage and Car Loan Scheme
Annual Report and Financial Statements For the 15 months ended 30th June 2019

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1. ABBREVIATIONS, ACRONYMS AND GLOSSARY OF TERMS

A. Abbreviations And Acronyms

BoT	Board of Trustees
CEO	Chief Executive Officer
CBK	Central Bank of Kenya
ComFund	Commodities Fund
FUND	Commodities Fund Staff Mortgage and Car loan Fund
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
MT	Managing Trustee
NT	National Treasury
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
OSHA	Occupational Safety and Health Act of 2007
PFM	Public Finance Management
PPE	Property Plant & Equipment
PSASB	Public Sector Accounting Standards Board

B. Glossary of Terms

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

2. KEY FUND INFORMATION AND MANAGEMENT

a) Background information

Commodities Fund Staff Mortgage and Car Loan Fund is established by and derives its authority and accountability from the provisions under Section 84 (1), Section 24 (4-7) of the PFM Acts, 2012 National Government and Section 127 (1) (2) of the PFM (National Government) Regulations, 2015.

The Commodities Fund Staff Mortgage and Car Loan Fund was established in the financial year 2018/2019 as a revolving Fund pursuant to the Salaries and Remuneration Commission (SRC) Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) of 17th December 2014 on Mortgage and Car Loan Schemes for State Officers and other Public Officers of Government of Kenya, with the objective of providing a loan scheme for the purposes of acquisition motor cars and residential properties for staff

The Fund is wholly owned by Commodities Fund and is domiciled in Kenya.

b) Principal Activities

The principal activity of the Fund is to provide:

- i) Mortgage loans to ComFund Staff for the sole purposes of:
 - a) Purchasing Land and Construction
 - b) Purchasing and existing residential Property
 - c) Construction, renovation and or improvement of existing mortgage property.
 - d) Takeover loans and existing mortgage or equity release on existing residential property
- ii) Loans for acquisition of motor car for the personal use by ComFund Staff.

The Fund is administered by the Commodities Fund Staff Mortgage and Car Loan Advisory Committee. The committee is charged with the responsibility of processing loans from applicants 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 administrator is responsible for the day-to-day operations.

c) THE FUND MANAGEMENT COMMITTEE

The Fund's Secretariat and the administrator are drawn from ComFund but its management is under the Housing Finance Corporation, Corporate bank and the Family Bank. The role of the banks is to manage the fund and provide administrative services for the fund.

SN	Position	Name
1	Chairperson	Jane W. Kimani
2	Committee Member	Nesline Gechuki Okiko

***Commodities Fund Staff Mortgage and Car Loan Scheme
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SN	Position	Name
3	Committee Member	Godfrey Kinyua Muriithi
4	Committee Member	Roseline Wambura
5	Fund Manager/Administrator	Ms. Rose Ndiritu
6	Fund Accountant	Mr. Silas Nyaga

Key Fund and Information Management (Continued)

d) Key Management

SN	Position	Name
1	Fund Manager/ Administrator	Ms. Rose Ndiritu
2	Fund Accountant	Mr. Silas Nyaga

e) Fiduciary Oversight Arrangements

SN	Position	Name
1.	Managing Trustee	Ms. Nancy C. Cheruiyot, The Managing Trustee
2	Internal Audit	Mr. Edwin Okiah , Head, Internal Audit
3	Staff Mortgage and Car Loan Management Committee	Ms, Jane W. Kimani Head of Debt Collection (Chairperson)
4	Staff Mortgage and Car Loan Management Committee	Ms. Rose Ndiritu, Head, Human Resources and Administration (Fund Manager/Secretary)
5	Fund Accountant	Ms. Silas Nyaga Njagi, Finance Manager

e) Fiduciary Oversight Arrangements

The Fund has developed key fiduciary oversight arrangements in all areas of operations as follows:

i) Finance and Audit Activities

The Fund has developed key policy to guide administration of Mortgage and Car Loan which complies with the requirements of the Public Financial Management Act 2012 and SRC Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) of 17th December 2014. Annual capital requirement of the Fund is factored in ComFund budgets approved by BoT and thereafter approved relevant government agencies before implementation. Bank accounts are opened with the authority of the National Treasury and operated by officers appointed by the Board of Trustees of Commodities Fund. Internal controls in place do not allow an officer of the Fund to initiate and complete transaction on his/her own. The Internal Audit department of the ComFund reviews operational and financial activities of Fund independently and reports directly to the Audit, Risk and Governance Committee of the Board of Commodities Fund. The Fund is annually audited by the Auditor General who reports its findings to the National Assembly.

ii) Credit Administration

The Fund through its regulations has established credit guidelines to help in administration mortgage and car loan to staff. Credit approvals are vested in mortgage and car loan Committees to avoid decisions being made individually.

iii) Overall Supervision by the Board

While the mortgage and car loan committee is responsible for day to day running of the Fund, it is supervised by the Managing Trustee and the BoT of Commodities Fund. All major decisions regarding the management of the Fund and approval of annual financial statement is done by BoT of the ComFund.

f) Registered Offices

11th floor, Utalii House
Utalii Lane
Off Uhuru Highway
P. O. Box 52714 - 00200
City Square
NAIROBI, Kenya

g) Fund Contacts

Mobile : +254-728-602427/8
 +254-737-204278/9

Key Fund and Information Management (Continued)

E-mail : info@comfund.co.ke
Website : www.comfund.co.ke

h) Fund Bankers

i) Housing Finance Ltd
Gill House Branch
P.O. Box 30088-00100
NAIROBI, Kenya
Tel.: +254-203262000;
Email: customer.service@hfgroup.co.ke

ii) Family Bank Ltd
Cargen House Branch
P. O. Box 74145-00200,
NAIROBI, Kenya
Tel: 0703 095 445;
Email: info@familybank.co.ke

iii) Independent Auditor

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




iv) Principal Legal Advisor

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

3. MANAGEMENT TEAM

<p>1. Ms. Nancy Chelangat Cheruiyot, FCCA</p> 	<p>Area of Responsibility: Managing Trustee</p> <p>Academic Qualification: MBA-Financial Management, Bachelor of Arts - Economics & Sociology.</p> <p>Professional Qualification: ACCA. Doctor of philosophy in Business Administration (on-going).</p>
<p>2. Mrs. Jane Kimani-Njenga</p> 	<p>Area of Responsibility: Head, Debt Recovery, Corporate Planning & Strategy.</p> <p>Academic Qualification: MBA- Strategic Management (University of Nairobi), Bachelor of Education- Arts (Egerton University)</p> <p>Professional Qualification: Advanced Diploma (Associateship) in Banking & Financial Services</p> <p>Professional Membership: Associate of Kenya Institute of Bankers (AKIB)</p>
<p>3. Ms Roseline Wambura</p> 	<p>Area of Responsibility: Credit.</p> <p>Academic Qualification: Bachelor of Commerce, MBA Project Management</p> <p>Professional Qualification: ACCA- ongoing.</p>
<p>4. Mr. Silas Nyaga</p> 	<p>Area of Responsibility: Finance and Accounting.</p> <p>Academic Qualification: MBA- Finance (KU) Bachelor of Commerce in Accounting (KU)</p> <p>Professional Qualification: CPA (K), CPS.</p> <p>Professional Membership: Full Member of Institute of Certified Public Accountant of Kenya</p>

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<p>5. Mr. Nesline Gechuki Okiko</p> 	<p>Area of Responsibility: Legal Services.</p> <p>Academic Qualification: Bachelor of Law.</p> <p>Professional Qualification: Diploma in Law.</p>
<p>6. Ms. Rose Ndiritu</p> 	<p>Area of Responsibility: Human Resources & Administration.</p> <p>Academic Qualification: MBA – HR (KU), Bachelor of Education (Arts) KU,</p> <p>Professional Qualification: CHRP, Higher Diploma HR (KNEC)/IHRM Certified Public Secretary-CPS (K), Certified Professional Mediator</p> <p>Professional Membership: Full Member of Institute Human Resources Management with Practising Certification</p>
<p>7. Mr. Solomon Kirwa</p> 	<p>Area of Responsibility: ICT.</p> <p>Academic Qualification: M.Sc. in I.T(Systems Security & Audit), MBA Finance Option, Bachelor of Science in IT.</p> <p>Professional Qualification: PRINCE2, ITIL, CCNA, CPA (K) Oracle OCP, MCSE & JAVA Programmer.</p>

**Commodities Fund Staff Mortgage and Car Loan Scheme
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<p>8. Mr. Tomno Kibichii</p> 	<p>Area of Responsibility: Supply Chain.</p> <p>Academic Qualification: Bachelor of Arts, MSC Procurement & Logistics (JKUAT).</p> <p>Professional Qualification: MCSIPS.</p>
<p>9. Mr. Edwin Okiah</p> 	<p>Area of Responsibility: Internal Audit.</p> <p>Academic: Bachelor of Commerce - Finance. MSC-Project Management.</p> <p>Professional Qualification: CPA (K), CFIP.</p>
<p><i>10. Deputy Fund Administrator</i></p>  <p><i>Ms. Florence Kipruto</i></p>	<p>Area of Responsibility: Human Resource and administration Records Management</p> <p>Academic Qualification: MSC-HR (JKUAT). Bachelor of Business Management (HR).</p> <p>Professional Qualifications: Human Resource Management</p> <p>Membership: Institute of Human Resources Management.</p>
<p><i>11. Mr. Deputy Fund Accountant</i></p>  <p><i>Mr. Vincent Kilonzo</i></p>	<p>Area of Responsibility: Finance and Accounting Records management</p> <p>Academic Qualification: MBA(Ongoing)- (KCA)</p> <p>Bachelor of Commerce in Accounting (Dedan Kimathi)</p> <p>Professional Qualification: CPA (K)</p> <p>Professional Membership: Full Member of Institute of Certified Public Accountant of Kenya</p>

4. CHAIRMAN'S REPORT

The Commodities Fund operationalized the ComFund Staff Mortgage and Car Loan Fund back in July 2018 in line with the SRC guidelines to enable Commodities Fund staff acquire residential houses and motor cars at affordable rates in order to attract, retain, and motivate staff. I am excited to note tremendous growth of the Fund to Kshs. 73 million from the humble initial capital allocation of Kshs. 70 million in the FY 2017/2018.

I am pleased to present the ComFund staff Mortgage and Car Loan Fund financial statements for the 15 months ended 30th June 2019. The Fund is fully funded by the Commodities Fund through annual allocations based on demand and availability of funds. The uptake of Mortgage and Car Loans has remained high and is projected to grow further as a result of the newly employed staff.

The governance and management of the scheme is as set out in the loan entitlement and conditions set out in ComFund Staff Mortgage and Car Loan Fund policies and regulations 2024 and as per guidelines issued by the SRC.

Am delighted to note the facilities advance to staff have helped them to improve their wellbeing and those of their families. The scheme comes in handy to support government effort of providing affordable housing for citizens of this great nation.

I take this opportunity to thank the Commodities Fund for funding the scheme, the Fund Management Committee for their dedication to serve, and the staff who have borrowed and continue to service their facilities faithfully.



.....
Ms. Jane Kimani
Chairperson, Commodities Fund Staff Mortgage and Car Loan Fund

5. REPORT OF THE FUND MANAGER/ ADMINISTRATOR

The Commodities Fund Staff Mortgage and Car Loan Fund was established and is governed by the existing internal regulations and government guidelines. Consequently, the management is hereby pleased to present the financial statements for the 15 months ended 30th June 2019. The financial statements presented comprise the statement of financial performance, statement of financial position, statement of changes in net assets, statement of cash flows and statement of comparison of budget and Actual.

The ComFund Staff house and Car Loan scheme has ensured prudent financial management and reporting in line with the PFM Act, 2012, PFM regulations 2015 and the International Public Sector Accounting Standard. Application of the above has made the scheme effective thus meeting the intended purposes.

The implementation and administration of the fund is overseen by staff mortgage and car loan management committee in liaison with external service providers. The Committee meets quarterly and or on need basis to consider loan applications and make recommendations to banks contracted to give mortgage and car loan facilities to staff. The Commodities Fund has funded the scheme from its inception to a tune of Kshs. 70 million .The scheme has cumulatively issued loans amounting to Kshs.52,850,000 to eight (8) members of staff. The outstanding loans as at date of reporting stood at Kshs. 51,888,988.

I wish to report that during the period under review, six staff benefited from the mortgage. Accordingly, the total amount disbursed in the year was Kshs. 52,850,000.

The scheme continues to meet its objectives of facilitating staff to acquire houses and motor cars at favourable rates and thus attracting competent staff, retaining and motivating them for high productivity. I encourage the staff to make use of the fund to better their wellbeing as well as those of their families.

I take this opportunity to sincerely thank the Commodities Fund for the generous sponsorship of the scheme and overall supervision. Further, I thank the Fund management Committee for their guidance, the management for the day to day running the scheme as well was our valued borrowers. You all made the scheme achieve its objectives.

R. Ndiritu

Ms. Rose Ndiritu
Fund Manager
Commodities Fund-Staff Mortgage and Car Loan Fund

6. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Commodities Fund through its current Strategic Plan for the FY 2017 – 2023, has incorporated the objective of the Salaries and Remuneration Commission Circular Ref: SRC /ADM/CIR/1/13Vol.III (128) dated 14th December 2014 by establishing the mortgage and car loan fund. The Commodities Fund intends to strength its institutional capacity through:

- Pillar /theme/issue 1: To attract and retain skilled, motivated and productive human capital

The annual work plan is prepared with the above objective in mind. One major strategy in place to achieve the above objective is provision of mortgage and car loan facilities to staff whose aim is to improve their welfare and those of their families. Consequently, staff would be motivated and retained for foreseeable future. Assessment of scheme performance against its annual work plan is done on annual basis. The *performance of the Staff Mortgage and Car loan* scheme against performance targets set for the FY 2018/2023, as indicated in the diagram below:

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Organizational Capacity	To attract and retain skilled, motivated and productive human capital	Percentage of staff attracted, retained and increase of staff accessing the mortgage	Implement new organization structure to enhance staff capacity to access mortgage and car loans	The Fund, retain all its staff and six was able to access mortgage and car loan

7. CORPORATE GOVERNANCE STATEMENT

Commodities Fund Staff Mortgage and Car Loan Fund is a revolving fund was established pursuant to the Salaries and Remuneration Commission (SRC) Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) of 17th December 2014 and Section 84 (1), Section 24 (4-7) of the PFM Acts, 2012 (National Government) and Section 127 (1) (2) of the PFM (National Government) Regulations, 2015.

The objective of the Fund is to provide loans to members of the scheme for the purposes of acquisitioning motor cars and residential properties for staff and their families.

Process of appointment and removal of Fund Administration Committee members

The Fund Administration Committee members as stipulated in section 6(a) i and ii of schemes regulations 2024 are appointed into office by the Commodities Fund Managing Trustee for a three year tenure renewable once. The Managing Trustee as the appointing authority may also revoke the appointment of a member.

Roles and functions of the Fund Administration Committee members,

The Fund Administrative committee as stipulated in section 6(c) of Drafted ComFund Staff Mortgage and Car loan Scheme regulations 2024 are required to:

- (i) Recommend appointment of mortgage institution.
- (ii) Liaise with the mortgage institution to ensure the scheme is adequately funded and operated on revolving fund concept to disburse loans.
- (iii) Develop mortgage eligibility criteria.
- (iv) Recommend successful mortgage applications for funding by the mortgage institution
- (v) Supervise and control the administration of the Scheme;
- (vi) Utilize the administration costs accruing thereto to defray operating expenses of the scheme and may impose any reasonable restrictions or other requirements concerning such use;

Committee Meetings

The Committee meets quarterly or on need basis to deliberate on the specific agenda brought before it. Further, the Committee oversees the financial and operational activities of the Fund.

Training for Committee members and Management

The scheme recognized the need for knowledge and skills in management resources invested in the scheme. The Employer Commodities Fund, offers training opportunities to members of staff based on identified skills gaps.

Conflict of interest.

Fund administrative committee members are required to declare if they are conflicted in any of the agenda item table before the committee. Where a member is conflicted, he or she is required to refrain from casting a vote on the matter.

Fund Committee remuneration,

Members of the committee who are all members of staff of Commodities Fund offers services to the Fund on voluntary basis.

Compliance with existing laws and regulations

The Fund is fully compliant with the existing laws and regulations guiding the management of Mortgage and Car loan facilities. Previously, the Fund was unable to prepare financial statements due to lack of gazetted regulations.

Ethics and conduct as well as governance audit undertaken (if any).

The Fund has not carried out any ethic and governance audit.

**Commodities Fund Staff Mortgage and Car Loan Scheme
Annual Report and Financial Statements For the 15 months ended 30th June 2019**

8. MANAGEMENT DISCUSSION AND ANALYSIS

The Commodities Fund staff Mortgage and Car loan scheme was established in 2018 with the initial allocation of Kshs.70 million by the Commodities Fund. The Fund has since grown to Kshs.73,844,196 as at 30th June 2019 and has granted loans amounting to Kshs 52,850,000 to Eight members of staff. A total of Kshs 1,009,869 has been repaid in the 15 months period.

Institution	Mortgage	Car Loan	Total
	Kshs	Kshs	Kshs.
ComFund-Funding HFC	60,000,000	-	60,000,000
ComFund-Funding-Family Bank		10,000,000	10,000,000
Principal Repayment Received HFC	588,553	-	588,553
Principal Repayment Received Family Bank	-	421,316	421,316
Principal Repayment Received Co-operative Bank	-	-	-
Interest Received HFC	2,976,859		2,976,859
Interest Received Family Bank	-	438,731	438,741
Interest Received Coop Bank		-	
Total Inflows	63,565,412	10,860,047	74,425,469
Scheme Administration Costs	429,240	33,716	462,956
Bank Charges	-	8,273	8,273
Total Outflows	429,240	41,989	471,229
Net inflows/(outflows)	63,136,172	10,818,058	73,954,240

The beneficiaries of the Fund and amount granted was as follows:

Financial Year	Car Loan	Mortgage	Amount Disbursed	No. of Beneficiaries
	Kshs	Kshs	Kshs	Kshs
2018/2019	3,400,000	47,950,000	51,350,000	8
Grand Total	3,400,000	47,950,000	51,350,000	8

Fund's key projects or investments decision implemented or ongoing,

The Fund has continued to Fund purchases, development, renovation of properties and purchase of motor car for personal use by members of staff and their families. The Fund does not engage in implementing projects but members are facilitated to acquire the above assets assisted by professional service providers (financial institutions) recruited by the scheme. Uncommitted funds are invested by the financial institutions to earn to some income to the Fund.

Number and amount of Loans issued during the period, loans outstanding at end of the period and loans repaid during the period.

During the period under review, a total of Kshs. 51.35 million was disbursed to eight staff in one year. Cumulatively, a total of Kshs.51.35 Million was disbursed by 30th June 2019 and cumulative repayment of Kshs1.5 Million received leaving outstanding balance of Kshs49.85 Million as at 30th June 2019.

Fund's compliance with statutory requirements,

The Fund has complied with statutory and tax obligations in discharge of its mandate. Further, the Fund complied with the laws and regulations applicable in management of the funds.

Major risks facing the Fund, material arrears in statutory and other financial obligations,

The Fund has put in place risk management frameworks for risk identification and mitigation. Additionally it has incorporated risk management in planning, execution evaluation as well as business continuity arrangements.

Key risks faced by the Funds include:

- **Liquidity Risks-** Inability of the scheme to meet mortgage and car loans demands of the staff given the only source of funding is allocation from the sponsor Commodities Fund.
- **Credit Risks-** Credit risk is the risk that a borrowers who have left commodities fund employment may default on any type of debt by failing to make required payments.
- **Operational Risks-** Credit risk is the risk that a borrower will default on any type of debt by failing to make required payments
- **Compliance Risks-** risks associated with non-compliance with applicable laws and regulations which may result to litigations and conflict of interest.

9. REPORT OF THE FUND ADMINISTRATION COMMITTEE

The Fund Administration Committee submit their report together with the audited financial statements for the 15 months ended June 30, 2019, which show the state of the Fund's affairs.

Principal activities

The principal activities of the Fund are to finance the Commodities Fund staff to purchase, develop, renovate residential properties and purchase private motor cars for personal use.

Performance

The performance of the Fund for the year ended June 30, 2019, is set out on page 1

Fund Administration Committee

The members of the Fund Administration Committee who served during the year are shown on pages viii-x.

Auditors

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

By Order of the Board



.....
Jane W. Kimani
Chairperson - Fund Administration Committee

10. STATEMENT OF MANAGEMENT'S 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 under the constitution or an act of parliament 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, 2021. This responsibility includes:

- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period,
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 Commodities Fund Staff Mortgage and Car Loan Regulations 2024. 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 15 months ended June 30, 2019 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 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 Board on 25th September 2024 and signed on its behalf by:



.....

Name:

Chairperson of the Fund



.....

Name: ROSE NDIRIT

Fund Administrator

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



Enhancing Accountability

HEADQUARTERS
Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON COMMODITIES FUND STAFF MORTGAGE AND CAR LOAN SCHEME FOR THE FIFTEEN (15) MONTHS' PERIOD ENDED 30 JUNE, 2019

PREAMBLE

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

- A. Report on 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 the 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 the Government achieves value for money and that such funds are applied for the intended purpose; and,
- 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, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Commodities Fund Staff Mortgage and Car Loan Scheme set out on pages 1 to 20, which comprise of the statement of financial position as at 30 June, 2019. The statement of financial performance, statement of net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Commodities Fund Staff Mortgage and Car Loan Scheme as at 30 June, 2019 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards/International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Cash and Cash equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.21,641,288 as at 30 June, 2019 as disclosed in Note 9 to the financial statements indicates that Kshs.16,060,812 and Kshs.5,580,475 were held in Housing Corporation Bank and Family Bank respectively. However, the balances were not supported by monthly bank reconciliations, cashbooks and board of survey to confirm the balances

In the circumstances, the accuracy and completeness of cash and cash equivalents of Kshs.21,641,288 could not be confirmed.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, 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 Information

The Management is responsible for the other information set out on page iii to xx which comprise of Key Fund Information and Management, Management Team, Report of the Management trustee and Statement of Performance against Predetermined Objectives. The Other Information does not include the financial statements and my audit report thereon

In connection with my audit on the, Fund's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information and I am required to report that fact. Based on the audit procedures performed and the matters described in my Basis for Qualified Opinion, I confirm that other information is not materially inconsistent with the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1.0 Late Submission of Financial Statements

The Management submitted the financial statements for the year ended 30 June, 2019 to the Auditor General on 30 September, 2024 contrary to Public Finance Management (National Government) Regulations, 2015 Regulation 221(1). The Accounting Officer for a National Government entity listed in Schedule 2 and 3 shall prepare and submit annual financial and non-financial statements in the format Gazette by the Cabinet Secretary within three months to the Auditor-General with copies to the responsible Cabinet Secretary and The National Treasury. (2) The annual financial and non-financial statements referred to under Paragraph (1), shall be prepared—(a) in compliance with the International Financial Reporting Standards and as prescribed by the Public Sector Accounting Standard Board from time to time; and (b) the annual financial statements must be approved by the governing body.

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

2.0 Fund Operating Without an Approved and Gazette Loan Scheme Regulations

The Fund is operating Staff Mortgage and Car Loan Scheme without the existence of approved and Gazette loan scheme regulations. The Fund has no regulation contrary to Section 24(11) of the Public Finance Management Act, 2012 which provides for the

management, governance, structure, operation, scope, winding up procedures and functionality and other provisions including financial for the fund since its inception in 2019.

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

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The 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 the Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the , Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention 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

comply 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards for Supreme Audit Institutions (ISSAIs) The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP will always detect a material misstatement 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

18 December, 2024

*Commodities Fund Staff Mortgage and Car Loan Scheme
Annual Report and Financial Statements For the 15 months ended 30th June 2019*

12. STATEMENT OF FINANCIAL PERFORMANCE FOR THE 15 MONTHS ENDED 30TH JUNE 2019

	Note	15 months ended 30 th June 2019
		Kshs.
Revenue from exchange transactions		
Interest income from investment of free funds	6	2,918,917
Interest from loan facilities	7	496,672
Total revenue		3,415,590
Expenses		
Use of Goods	8	471,229
Total expenses		471,229
Surplus for the Year		2,944,361

(The notes set out on pages 6 to 20 form an integral part of these Financial Statements).

The financial statements were approved on 25th September, 2024 by:

Rose Ndhiru
.....
Name

Fund Administrator

[Signature]
.....
Name

Fund Accountant

ICPAK M/No. 5078

[Signature]
.....
Name

Chairperson of the Fund


*Commodities Fund Staff Mortgage and Car Loan Scheme
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13. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

	Note	15 months ended 30 th June 2019
		Kshs.
Assets		
Current assets		
Cash and cash equivalents	9	21,641,288
Interest Receivables from un-utilized Funds	10 (a)	371,298
Cash in Transit	10 (b)	25,196
Receivables loans Exchange transactions	11	3,211,800
Total Current Assets		25,249,582
Non-current assets		
Receivables Loans Exchange transactions	11	48,677,188
Total Non-Current Assets		48,677,188
Total assets		73,926,769
Liabilities		
Trade and other Payables	12	82,573
Total Current Liabilities		82,573
Net Assets		73,844,196
Financed by:		
Mortgage and Car loan revolving fund		70,000,000
Accumulated surplus (<i>Reserves</i>)		3,844,196
Total net assets and liabilities		73,844,196

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements.

The Fund financial statements were approved on 25th September 2024 and signed by:


Name *ROSE NDIRITU*

Fund Administrator


Name

Fund Accountant


Name

Chairperson of the Fund

ICPAK M/No.5078

14. STATEMENT OF CHANGES IN NET ASSETS FOR THE 15 MONTHS ENDED 30TH JUNE 2019

	Mortgage Fund	Car Loan Fund	Accumulated surplus	Total
	Kshs.	Kshs.	Kshs.	Kshs.
Balance as at 1 April 2018	-	-	-	-
Addition for the period	60,000,000	10,000,000	3,844,196	73,844,196
As at 30 June 2019	60,000,000	10,000,000	3,844,196	73,844,196

15. STATEMENT OF CASH FLOWS FOR THE 15 MONTHS ENDED 30TH JUNE 2019

	Note	15 Months ended 30 th June 2019
		Kshs.
Cash flows from operating activities		
Receipts		
Interest from free funds		2,918,917
Interest from loans		496,672
Principal loan repayment		1,009,869
Total Receipts		4,425,459
Payments		
Use of Goods		462,956
Bank Charges		8,273
Loan Disbursements		52,850,000
Interest capitalization		48,857
Payment administrator		(33,716)
Total payments		53,336,370
Net cash flow from operating activities	12	(48,910,911)
Cash flow from investing activities		
(Increase)/Decrease in Short-term receivables Staff Mortgage & car loan Scheme		(396,196)
(Increase)/Decrease in Long-term receivables Staff Mortgage & car loan Scheme		-
Increase/(Decrease) in trade payables		48,857
Net Cash flows from investing activities		(347,637)
Net cash flow from financing activities		
Initial Capital		10,000,000
Net cash flows from Financing		10,000,000
Net increase/(decrease) in cash and cash equivalents		(39,258,548)
Beginning Cash Equivalents	9	60,899,836
Cash and cash equivalents at 30 June 2019	9	21,641,288

16. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE 15 MONTHS ENDED 30TH JUNE 2019

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
	A	b	C=(a+b)	D	e=(c-d)	F=e/c
Revenue						
Interest income	4,250,000	-	3,450,000	3,415,590	34,410	1.0%
Total Revenue	4,250,000	-	3,450,000	3,415,590	34,410	1.0%
Expenses						
Use of good and Services	450,000	-	450,000	471,229	21,229	4.7%
Expenditure	450,000	-	450,000	471,229	21,229	4.7%
Surplus for the period	3,800,000	-	3,800,000	3,844,196	44,196	1.2%
Capital Expenditure	-	-	-	-	-	0%

17. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Commodities Fund Staff Mortgage and Car loan Fund is established by and derives its authority and accountability from the Public Finance Management Act, 2012. The Fund is wholly owned by the Commodities Fund and is domiciled in Kenya. The Fund's principal activity is to provide loans to members of the scheme for the purposes of acquisition of motor cars and residential properties for staff and their families.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of 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 areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *Fund*. The financial statements have been prepared in accordance with the PFM Act, 2012 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 2023.*

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	<p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p>The standard has no impact on the Commodities Staff Mortgage and Car Loan Fund.</p>
IPSAS 42: Social Benefits	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <ol style="list-style-type: none"> (a) The nature of such social benefits provided by the Entity. (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows. <p>The standard has no impact on the Commodities Staff Mortgage and Car Loan Fund.</p>

*Commodities Fund Staff Mortgage and Car Loan Scheme
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Standard	Effective date and impact:
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<p>Applicable: 1st January 2023:</p> <p>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.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <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>d) Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> <p>The amendment has no impact on the Commodities Fund Staff Mortgage and Car Loan Fund.</p>
Other improvements to IPSAS	<p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> Amendments to refer to the latest System of National Accounts (SNA 2008). • <i>IPSAS 39: Employee Benefits</i> Now deletes the term composite social security benefits as it is no longer defined in IPSAS. The standard is no longer in IPSAS handbook. • IPSAS 29: Financial instruments: Recognition and Measurement Standard no longer included in the 2023 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023. The standard was superseded by IPSAS 41

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

Standard	Effective date and impact:
IPSAS 43	<p>Applicable 1st January 2025</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</p>

Standard	Effective date and impact:
	<p>leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> <p><i>The standard is not applicable to Commodities Fund staff Mortgage and Car loan Fund</i></p>
<p>IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations</p>	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> <p>The Standard is not applicable on Commodities Fund Staff Mortgage and Car Loan Fund.</p>

iii Early adoption of standards

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

4. Significant Accounting Policies

a. Revenue recognition

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 the Current FY was approved by the National Treasury in July 2023. Subsequent revisions and 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 Fund upon receiving the respective approvals to conclude the final budget. However, the Fund did not receive additional appropriations in the year ended 30th June 2024.

The Fund budget is prepared on the accrual basis same as the financial statements. This is informed by the fact that much of the Fund's income is derived from loans which accrue interest daily and have specific repayment date which does not necessarily correspond with the reporting date. Secondly, as a credit institution, provision for non-performing loans form sizeable part of expenses which by its very nature does not involve movement of cash.

The amounts in the financial statements are therefore on same basis as in the approved budget and does not require a reconciliation.

A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

a) Financial instruments /assets

Initial Recognition and Measurement

Financial assets within the scope of IPSAS 41 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The 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 taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Impairment of financial Asset

Originating loans and provision for loans impairment

Loans are originated by the Commodities Fund Staff Loan Management Committee who recommend the granting of the facility to the financial institution and the loan is categorized as loans originating from the Fund.

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. *The Fund does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Funds financial statements.* A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the entity measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

I. Financial assets

Classification of financial assets

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

Subsequent measurement

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

Amortized cost

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

Significant Accounting Policies (Continued)

Impairment

The Fund assesses, on the reporting date establishes whether there is objective evidence that financial assets or a fund of financial asset is impaired. Management then follows the procedure required by regulation 145 of the PFM Act 2015. A financial asset of the Fund is deemed to be impaired when there objective evidence of impairment as a result of one of more events that have occur after initial recognition of the financial asset(an incurred 'loss event') and that the has an impact estimated future cash flows of the Fund that can be reliably be estimated. Evidence of impairment may include:

- Default or delinquency in interest and Principal
- The probability that the borrow will be declared bankrupt or undertaking other financial reorganization
- The borrower is facing experiencing significant financial difficulty
- Observable data indicates measurable decrease in in estimated future cash flows (i.e changes in arrears or economic conditions that correlate with default.)

II. Financial liabilities

Classification

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

a) 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.

b) 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.

c) Nature and purpose of reserves

The scheme maintains the mortgage revolving fund reserve, car loan revolving fund and revenue reserves meant to facilitate mortgages, car loans and general capital needs of the scheme respectively.

Significant Accounting Policies (Continued)

d) 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.

e) 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.

f) 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.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call, and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the commercial banks at the end of the financial year.

h) Comparative figures

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

i) Events after the reporting period

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

j) Ultimate and Holding Fund

The Fund is established under Section 24 (4) PFM Act, 2012 and its ultimate parent is the Commodities Fund.

k) Currency

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

Notes to the Financial Statements (Continued)

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.

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.

6. Interest income from Investment of free funds

Description	15 months ended 30 th June 2019
	Kshs.
Housing Finance Corporation	2,547,619
Family Bank	371,298
Total Interest Income from free funds	2,918,917

The unutilized funds are placed on high interest rate mainly at the prevailing market interest rate. Interest earned on unutilized funds is as indicated above.

7. Interest income from staff loans

Description	15 months ended 30 th June 2019
	Kshs.
Housing Finance Corporation-Mortgages	429,240
Family Bank-Car Loan	67,433
Total Interest Income from staff loans	496,673

Interest on staff mortgages and car loan is charged at 3% in line with SRC Requirement. The amounts represents interest earned by the two facilities during the year review.

Notes to the Financial Statements (continued)

8. Use of Goods and Services

Description	15 months ended 30 th June 2019
	Kshs.
Administration fees	462,956
Bank charges	8,273
Total	471,229

The administration fee relates to commissions paid to HFC and Family banks for undertaking the scheme administration work of the mortgage and car loan respectively. HFC is takes the entire 3% charged on loans as their commission while Family bank takes 1.5% of the interest charged as their interest.

9(a) Cash and Cash Equivalents

Description	15 months ended 30 th June 2019
	Kshs.
Commodities Fund Mortgage and Car loan Accounts	21,641,288
Total Cash and Cash Equivalents	21,641,288

9(b) Detailed analysis of the cash and cash equivalents

Financial Institution	Account number	15 months ended 30 th June 2019
		Kshs.
Mortgage and Car Loan Fund		
Housing Finance Corporation		16,060,812
Family Bank		5,580,475
Grand Total		21,641,288

The Fund's back –up accounts held at Housing finance for both Mortgage and Car loans holds funds that are disbursed to the loan beneficiaries less principal recoveries. The account's balance is therefore expected to have equivalent to aggregate disbursed loans less principal recoveries. The back –up account does not earn interest.

10. (a) Receivables from Exchange Transactions

Description	2018/2019
	Kshs.
Current Receivables	
Housing Finance	0
Interest Receivable –Family Bank	371,298
Total Current Receivables	371,298

10(b)

Description	2018/2019
	Kshs.
Current Receivables	
Housing Finance	0
Cash on Transit	25,196
	25,196

The fund had earned the above interest on various accounts but the same had not been credited in Fund's accounts by close of financial year. Further, Kshs. 25,196 received as Loan repayment had not be credited.

11. Staff Loan Receivables

	15 months ended 30 th June 2019
	Kshs.
Staff Loan Short term	
Staff Mortgages	3,211,800
Car loans	0
Total Short term Loans	3,211,800
Staff loan –long term	
Staff Mortgages	44,198,503
Staff Car Loan	4,478,684
Total Non-Current Receivables	48,677,188
Grand Total	51,888,988

The maximum repayment period for mortgage facility is 20 years while that of the car loan facility is 5 years. The entire receivable would therefore be collected in a period not exceeding 20 years.

12. Trade and other payables

Description	15 months ended 30 th June 2019
	Kshs.
Administration fee	33,716
Interest Capitalised	48,857
Total trade and other payables	82,573

	2018/2019	% of total
Ageing analysis: (Trade and other payables)		
Under one year	82,573	100%
1-2 years	-	-
2-3 years	-	-
Over 3 years	-	-
Total	82,573	100%

The Family bank who are entitled to 1.5% or half of the interest charged on car loan facilities have not invoiced their commission for payment. The figure above represents amounts owed to bank since inception of the scheme.

12. Net cash flows from operating activities

Description	Balance C/down	Balance B/F	15 months ended 30 th June 2019
	Kshs.	Kshs.	Kshs.
Surplus/ (deficit) for the year before tax			2,944,361
Adjusted for:			
Loan receivable	51,888,988	-	(51,888,988)
Working capital adjustments			
Increase in receivables	-	-	-
Increase in payables	33,716	-	33,716
Net cash flow from operating activities			(48,910,911)

13. Financial risk management

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks. 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 its policy is to advance mortgage and car loan facilities to Commodities Fund Employees only and the same is recovered through checkoff to reduce default risk.

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 staff will be unable to pay amounts in full when due. Management assesses the credit worthiness of loan applicant by ascertaining the applied amount is within the officers maximum limit and the same can be accommodated

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in the payslip within the 1/3 rule. Individual loan limits are set in the regulations as guided by the SRC circular which introduced the Mortgage and Car Loan facilities.

The carrying amount of loans recorded in the financial statements that represents the Fund's maximum exposure to credit risk is as follows

Description	Total amount Kshs.	Fully performing Kshs.	Past due Kshs.	Impaired Kshs.
At 30 June 2019				
Receivables From Exchange Transactions- Car loans and mortgages	51,888,988	51,888,988	-	-
Receivables From Non-Exchange Transactions	-	-	-	-
Bank Balances	21,641,288	21,641,288	-	-
Total	73,530,276	73,530,276	-	-

The staff loans under the fully performing category are paying their debts as required. The receivables are 100% covered by value of the financed assets.

b) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Fund management Committee, 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.

The table below represents cash flows payable by the Fund under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Description	Less than 1 month	Between 1- 3 months	Over 5 months	Total
	Kshs.	Kshs.	Kshs.	Kshs.
At 30 June 2019				
Trade Payables	3,708.15	11,772.25	67,092.54	82,572.54
Total	3,708.15	11,772.25	67,092.54	82,572.54

c) 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. Interest rate on staff facilities is fixed at 3% in line with SRC circular but free funds are attract interest at the market rate. 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 engages the bank and monitors interest rate movement to ensure free funds are placed at appropriate interest rates prevailing at the time.

d) Capital risk management.

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

Description	15 Months ended 30 th June 2019
	Kshs.
Revolving Fund as at 01 July	
Staff Mortgages Revolving Fund	60,000,000
Staff Car Loan Revolving Fund	10,000,000
Accumulated surplus (<i>Reserves</i>)	3,844,196
Adjustment	(313,921)
Total funds	73,530,275
Less: Cash and Bank Balances	(21,641,288)
Net debt/(excess cash and cash equivalents)	51,888,988
Gearing	71%

Total assets of the Fund are adjusted the outstanding interest receivable and payables at year end payables)

14. Related party balances

a) Nature of related party relationships

Commodities Staff Mortgage and Car Loan Fund is wholly owned by Commodities Fund Who provide capital and the Fund management. The personnel charged with the responsibility of the Fund are fully compensated by the Commodities Fund and Staff Mortgage Car Loan Fund does not incur any cost on them.

There were no new capital injection during the year under review.

15. Events after the Reporting Period

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

16. Ultimate And Holding Entity

The Commodities Fund Staff Mortgage and Car Loan Fund is a scheme under the sponsorship of Commodities Fund which is a SAGA under ministry of Agriculture and Livestock Development.

17. Currency

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

18. ANNEXES

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

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
5.Non-Preparation of Car and Mortgage Funds Financial Statements	<p>The statement of financial position reflects total investments of Kshs.128,242,000. The amount includes staff mortgage loan and car loan deposits amounting to Kshs.116,164,000 and Kshs.12,078,000 respectively. However, the Fund did not prepare financial statements for the schemes and submit them for audit as required by the Salary and Remuneration Commission (SRC) Circular Ref. SRC/ADM/CIR/1/13 Vol. III (128) dated 17 December, 2014 on Car Loan and Mortgage Schemes for State Officers and other Public Officers of the Government of Kenya.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>It is true the Commodities Fund did not prepare separate financial statements for Car Loan and Mortgage schemes. The omission was as a result of the Fund not having gazetted regulations for Car and Mortgage schemes which are the basis of preparing separate financial statements. The Fund has prepared separate financial statements for mortgage and Car loan for the FY 2018 to 2023/2024.</p>	Silas Nyaga- Finance Manager	Resolved

Fund Manager

Rudwan

Date.....

24/12/2024

Annex II: Inter-Fund Confirmation Letter