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ON

KAKAMEGA COUNTY TRADE LOANS FUND

FOR THE YEAR ENDED 30 JUNE, 2019

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COUNTY GOVERNMENT OF KAKAMEGA
KAKAMEGA COUNTY TRADE LOANS FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED
30TH JUNE, 2019

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

TABLE OF CONTENTS

TABLE OF CONTENTS 1

1.KEY ENTITY INFORMATION AND MANAGEMENT..... 2

2.FUND PERFORMANCE AND FUTURE OUTLOOK..... 4

3. FORWARD BY THE CHIEF OFFICER..... 5

4. STATEMENT OF MANAGEMENT RESPONSIBILITIES..... 6

5. REPORT OF THE INDEPENDENT AUDITORS ON KAKAMEGA COUNTY TRADE LOANS FUND..... 7

6. FINANCIAL STATEMENTS 8

6.1 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2019.....8

6.2 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019 9

6.3 STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2019.....10

6.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019 11

6.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2019 12

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 13

8.NOTES TO THE FINANCIAL STATEMENTS 21

9. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS..... 24

3. FORWARD BY THE CHIEF OFFICER

The Ministry of Trade ,Industrialization and Tourism presents the Financial statements for the Kakamega County Trade Loans Fund for the period ended 30th June, 2019 in accordance with the format prescibed by the Public Sector Accounting Standard Board.

In the year 2015-2016 the County through Kenya Commercial Bank disbursed Loans amounting to Kshs. 70,295,063 to the small scale traders. The Loans were recoverable within one year but Kshs.40,890,138. was still outstanding as at 30th June 2019.
The Trade Loans Fund did not have a budget for the financial year 2018/2019. This affected the performance of the Fund as evidenced by the low loans repayment rate. For efficient management of the Fund the County Government of Kakamega has decided to strengthen the legislative instruments of the Fund by coming up with the legislations to create a Micro finance Corporation.
The Micro Finance Corporation once created will operate as semi autonomous agency controlled by the County Government of Kenya. It is our hope that once the Micro-finance Institution is in place, it will provide focussed attention on the traders' financial needs and also ensure that the disbursed loans are repaid in time in order to benefit as many traders as possible.

FANUEL WEMALI ANGAYA
Chief Officer,
Ministry of Trade, Industrialization and Tourism.

4. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Sections 116(1), Provides that A County Executive Committee Member for Finance may establish other public Funds with the approval of the County Executive Committee and the County Assembly.

Under Section 116(2), for every County Public Fund established, the County Executive for Finance shall designate a person responsible for administering that Fund.

Sections 116(7),164 requires that, at the end of each financial year, the Administrator of the Fund shall prepare financial statements of the entity, in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Administrator of the Trade Loans Fund confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Further the Administrator confirms that the Trade Loans Fund's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The County Government's financial statements were approved and signed by the Administrator of the Fund on 12TH JUNE 2020.

Chief Officer
Ministry of Trade, Industrialization and Tourism.

REPUBLIC OF KENYA

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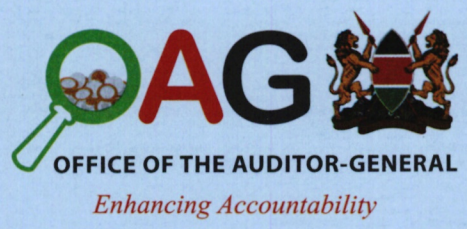

HEADQUARTERS
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KAKAMEGA COUNTY TRADE LOANS FUND FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kakamega County Trade Loans Fund set out on pages 8 to 24, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in 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 Kakamega County Trade Loans Fund as at 30 June, 2019, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.37,508,616 as at 30 June, 2019. However, the cashbooks, bank reconciliation statements and certificate of bank balance for the loan account were not provided for audit review contrary to Regulation 90(1) of the Public Finance Management (County Government) Regulations, 2015 which requires that bank account reconciliations are completed for each bank account held by an Accounting Officer every month and submit a bank reconciliation statement not later than 10th of the subsequent month to the County Treasury with a copy to the Auditor-General.

In the circumstances, it was not possible to ascertain accuracy of the cash and cash equivalents balance of Kshs.37,508,616 as at 30 June, 2019.

2. Presentation of the Financial Statements

The Public Sector Accounting Standards Board (PSASB) financial reporting format requires the Fund Management to provide a list of Board of Trustees and Management team, passport-size photo, name and a concise description of each member's date of birth, key academic and professional qualifications and work experience among other details. However, this information was not provided in the Fund's annual report accompanying the financial statements. Further, the financial statements do not have a Corporate Governance Statement, Corporate Social Responsibility Statement/Sustainability Report and Report of Trustees.

In the circumstances, the Fund's financial statements were not prepared in accordance with the PSASB requirements.

3. Sustainability of Service

In the year 2015/2016, the Fund through Kenya Commercial Bank (KCB) disbursed loans to traders totalling Kshs.70,295,063 which were recoverable within one year. However, as at 30 June, 2019, about four (4) years after the disbursement of the loans, an amount of Kshs.40,890,138, or 58% of the loans, remained outstanding. No evidence of efforts or strategy in place to collect the amounts, contrary to Regulation 6 of the Public Finance Management (Kakamega County Trade Loans Fund) Regulations, 2017 which provides that the sources of the Fund shall be monies from the repayments of any loans from the Fund granted to an entrepreneur among others.

Further, the Fund Management indicated that the County Government of Kakamega had created a micro finance corporation to take over the operations of the Fund. However, there is no specific provision in the new law on how the operations of the Fund will transition to the microfinance corporation.

Consequently, the Fund may not continue to sustain services unless Management puts in place strategies to recover the outstanding loans.

4. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Irregular Operations without Approved Budget

The statement of comparison of budget and actual amounts reflects a revenue and expenditure budget allocation of Kshs.5,000,000 and Kshs.4,811,000 respectively, against actual expenditure of Kshs.4,729,683 during the year under review. However, the Management did not provide evidence of approval of the budget, contrary to Section 120(2) of the Public Finance Management Act, 2012 which requires every county government entity to submit an annual cash flow plan and forecasts to the County Treasury in a form and manner directed by County Treasury, and send a copy to the Controller of Budget.

Consequently, the validity and regularity of the expenditure of Kshs.4,729,683 as reflected in the statement of financial performance for the year ended 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 Loans Board

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 governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain 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.

The Kakamega County Small Scale Trade Development Loans Board is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the 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 audit 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 noncompliance. 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 policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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 going concern 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.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

14 October, 2021

6. FINANCIAL STATEMENTS

6.1 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2019.

	Note	FY2018/2019 KSh	FY2017/2018 KShs
Total revenue		-	**736,973**
Expenses			
General expenses	**1**	4,718,790	-
Finance costs	**2**	10,893	17,741
Total expenses		**4,729,683**	**17,741**
Other gains/losses			
Gain/loss on disposal of assets		-	-
Surplus/(deficit) for the period		**(4,729,683)**	**719,232**

6.2 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019.

	Note	FY 2018/2019 KSh.	FY 2017/2018 KSh.
Assets			
Current assets			
Cash and cash equivalents	**3**	37,508,616	41,565,399
Current portion of long term receivables from exchange transactions	**4**	40,890,138	41,563,038
Total assets		**78,398,754**	**83,128,437**
Revolving Fund		83,128,437	83,128,437
Accumulated surplus		-4,729,683	-
Total net assets and liabilities		**78,398,754**	**83,128,437**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity's financial statements were approved on 12th June 2020 and signed by:

Administrator of the Fund
Name: FANUEL WEMALI A.
Chief Officer.

Fund Accountant
Name: CPA KULOVA DAVID MUSAGA
ICPAK Member Number: 10990

6.3 STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2019

	Revolving Fund	Revaluation Reserve KSHs	Accumulated surplus KSHs	Total KSHs
Balance as at 1 July 2017	**83,128,437**	-	-	**83,128,437**
Balance as at 30 June 2018	**83,128,437**	-	-	**83,128,437**
Balance as at 1 July 2018	**83,128,437**	-	-	**83,128,437**
Surplus/(deficit) for the period	-	-	-4,729,683	**-4,729,683**
Balance as at 30 June 2019	**83,128,437**	-	**-4,729,683**	**78,398,754**

6.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Note	FY2018/2019 KSh	FY2017/2018 KSh
Cash flows from operating activities			
Total Receipts		-	-
Payments			
General expenses		4,718,790	-
Finance cost		10,893	17,741
Total Payments		**-4,729,683**	**-17,741**
Net cash flows from operating activities	5	**-4,729,683**	**-17,741**
Net cash flows used in investing activities		-	-
Cash flows from financing activities			
Proceeds from revolving fund receipts		672,900	736,973
Net cash flows used in financing activities		**672,900**	**736,973**
Net increase/(decrease) in cash and cash equivalents		**(4,056,783)**	**719,232**
Cash and cash equivalents at 1 JULY		41,565,399	40,846,167
Cash and cash equivalents at 30th JUNE		**37,508,616**	**41,565,399**

The Cash flow statement has been prepared using direct method.

6.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2019

	Original budget 2018	Adjustments 2018	Final budget 2018	Actual on comparable basis 2018	Performance difference 2018	% utilisation 2018
Revenue	**KShs**	**KShs**	**KShs**	**KShs**	**KShs**	
Transfers from County Govt.	5,000,000	0	5,000,000	0	5,000,000	-
Total income	**5,000,000**	**-**	**5,000,000**	**0**	**5,000,000**	
Expenses						
General expenses	**4,800,000**	0	4,800,000	4,718,790	81,210	98
Finance cost	11,000	0	11,000	10,893	107	99
Total expenditure	**4,811,000**	**-**	**4,811,000**	**4,729,683**	**81,317**	98
Surplus for the period	**189,000**	**-**	**189,000**	**-4,729,683**	**81,317**	

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

The Fund's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The adjusted financial statements for the financial year 2017/2018 have been prepared to enable preparation of the current financial statements on accrual basis. The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Fund. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. Adoption of new and revised standards

a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2016

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	**Applicable: 1st January 2016** The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	**Applicable: 1st January 2016:** The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

c) Early adoption of standards

The entity has not adopted any new or amended standards in year 2018/2019.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. 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 entity 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 each period.

4. Budget information

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Property, plant and equipment

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

6. 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.

7. Financial instruments

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-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity 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, 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. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a entity of financial assets 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 financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an entity of debtors 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)

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 Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

9. Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Entity 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent assets

The Entity 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 Entity 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.

10. Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements.

11. Changes in accounting policies and estimates

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

12. Employee benefits – Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

13. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

15. Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

16. 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 Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

17. Comparative figures

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

18. Events after the reporting period

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

19. Ultimate and Holding Entity

The entity is a County Public Fund established by The Kakamega County small scale Trade development Fund (Regulations 2017) under the Ministry of Trade, Industralisation and Tourism. Its ultimate parent is the County Government of Kakamega.

20. Currency

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21. Significant judgments and sources of estimation uncertainty

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

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

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note xxx.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

8. NOTES TO THE FINANCIAL STATEMENTS

1.General expenses

Description	FY2018/2019 KSHS	FY2017/2018 KSHS
Training	1,431,400	-
Boards	1,288,400	-
Fuel and oil costs	80,000	-
Travel Cost	60,300	
Catering	264,935	-
Supplies and accessories	31,200	-
Printing and stationery		-
Newspapers	29,160	
Advertisement	262,740	
Daily Subsistence	767,700	-
Maintenance of Motor Vehicles	241,500	-
Telecommunication	150,000	-
General office supplies	111,455	-
Total	**4,718,790**	-

2.Finance costs

Description	FY2018/2019 KSHS	FY2017/2018 KSHS
Bank charges	10,893	4,260
Loan arrears Penalties		13,481
Total	**10,893**	**17,741**

3.Cash and cash equivalents

Description	FY2018/2019 KSHS	FY2017/2018 KSHS
Current account-operations	276,828	4.00
Fund account	37,231,788	41,565,395
Total cash and cash equivalents	**37,508,616**	**41,565,399**

Detailed analysis of the cash and cash equivalents are as follows:

Financial institution	Account number	FY 2018/2019 KShs
c) Current account		
Kenya Commercial bank	1170346138	276,828
Kenya commercial bank	1179536118	37,231,788
Sub- total		**37,508,616**
Grand total		**37,508,616**

4.Receivables from exchange transactions

Description	FY 2018/2019 KSHS	FY 2017/2018 KSHS
Current Receivables		
Other exchange debtors	40,890,138	41,563,038
Total Current receivables	**40,890,138**	**41,563,038**
Total receivables from exchange transactions	**40,890,138**	**41,563,038**

5.Cash generated from operations

	FY 2018/2019 KSHS	FY 2017/2018 KSHS
Surplus for the year before tax		
Adjusted for:	-4,729,683.00	
Depreciation	-	-
Gains/ losses on disposal of assets	-	-
Interest income	-	-
Finance cost	-	-
Working Capital adjustments		
Increase in inventory	-	-
Increase in receivables	-	-
Increase in payables	-	-
Net cash flow from operating activities	**-4,729,683.00**	-

6. 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) The County Government of Kakamega
b) County Government of Kakamega ministry of Trade ,Industralisation and Tourism
c) Key management;
d) Board Members

9. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue/ Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status (Resolved/ Not Resolved)	Timeframe (Date by which we expect the issue to be resolved)
1	Preparation of Financial Statements FY 2017/18 on accrual basis	Financial statements prepared on accrual basis and resubmitted for Audit	Respective accounting officer	Resolved	FY 2018/2019
2	Cash and cash equivalents	To do proper reconciliations for both accounts	Respective accounting officer	Unresolved	FY 2019/2020