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**OFFICE OF THE AUDITOR-GENERAL**

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# REPORT

OF

**THE AUDITOR-GENERAL**

ON

**KISII COUNTY ASSEMBLY CAR LOAN  
AND MORTGAGE FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2019**

Tabled by: Senate Minority Whip

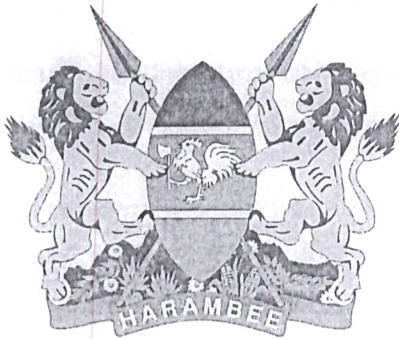
Date: 4<sup>th</sup> November, 2021

Committee:

Chair of the table: Kawato Mayor



# KISII COUNTY GOVERNMENT



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## KISII COUNTY ASSEMBLY CAR LOAN & MORGAGE FUND

### ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2019

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

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**TABLE OF CONTENTS**

<b>TABLE OF CONTENTS .....</b>	<b>1</b>
<b>1. KEY ENTITY INFORMATION AND MANAGEMENT .....</b>	<b>2</b>
<b>2. THE BOARD OF TRUSTEES (or any other corporate governance body for the Fund) .....</b>	<b>4</b>
<b>3. MANAGEMENT TEAM.....</b>	<b>5</b>
<b>4. BOARD/FUND CHAIRPERSON'S REPORT .....</b>	<b>6</b>
<b>5. REPORT OF THE FUND ADMINISTRATOR.....</b>	<b>8</b>
<b>6. CORPORATE GOVERNANCE STATEM .....</b>	<b>9</b>
<b>7. MANAGEMENT DISCUSSION AND ANAL .....</b>	<b>10</b>
<b>8. REPORT OF THE TRUSTEES (CASB) .....</b>	
<b>9. STATEMENT OF FUND ADMINISTRATOR RE .....</b>	<b>11</b>
<b>10. REPORT OF THE INDEPENDENT AUDITOR.....</b>	<b>15</b>
<b>11. FINANCIAL STATEMENTS .....</b>	<b>16</b>
<b>11.1 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30<sup>th</sup>JUNE 2019 .....</b>	<b>16</b>
<b>11.2 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019.....</b>	<b>17</b>
<b>11.3 STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2019.....</b>	<b>18</b>
<b>11.4 STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2019.....</b>	<b>19</b>
<b>11.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30<sup>th</sup>JUNE 2019 .....</b>	<b>21</b>
<b>11.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....</b>	<b>22</b>
<b>11.7 NOTES TO THE FINANCIAL STATEMENTS .....</b>	<b>41</b>
<b>12. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS .....</b>	<b>55</b>
<b>12. APPENDIX 1 .....</b>	<b>56</b>

## 1. KEY ENTITY INFORMATION AND MANAGEMENT

### a) Background information

The County Assembly is constituted and established pursuant to article 176(1) of the constitution of Kenya. Accordingly section 12 of the county Governments Act establishes County Assembly Service Boards for each County Government. Among the functions bestowed upon County Assembly Service Boards is preparation of annual financial estimates of expenditure, exercising budgetary control and performing other functions prescribed by National legislation. Section 116 of the Public Finance Management Act, 2012 empowers the County Executive Committee Member for Finance to establish County Public Funds with the approval of the County Executive Committee and the County Assembly. Subsection 7 requires the administrator of the County public fund to prepare accounts for each financial year and submit them to the Auditor General.

Arising from the above mentioned provisions and as advised by the Salaries and Remuneration Commission (SRC) on the benefits to be enjoyed by the members of the County Assemblies, vide circular ref; SRC/TC/CGOVT/3/16 dated 27<sup>th</sup> November, 2013, the Kisii County Executive Committee Member for Finance and Economic Planning authorised the establishment of the Car loan and Mortgage scheme fund with the approval of the County Assembly. Chase Bank (K) was subsequently appointed the administrator of the Fund.

### b) Key Management

The Kisii County Assembly day-to-day management is under the following key organs:

- County Assembly Service Board;
- Office of the Speaker; and
- Office of the Clerk.

### c) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2019 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Accounting Officer	Mr James O. Nyaoga.
2.	Liaison Officer	Mr. Abel Nyamwaya.
3.	Senior Accountant	Mr. Moses Ratemo.
4.	Finance Officer	Mr. Dennis Aamba

**d) Fiduciary Oversight Arrangements**

The County Assembly of Kisii has an Internal Audit Department and the Public Accounts and Investment Committees which serve the County Assembly and the County Executive. The Assembly has ten Sectoral Committees which oversight all the ten departments of the County Executive. All the County Assembly activities are supervised by the County Assembly Service Board (CASB) as per section 13 of the County Government Act. Kenya National Audit office and Controller of Budget also oversight the activities of the assembly.

**e) Entity Headquarters**

P.O. Box 4552- 40200  
Old Municipal Building  
Kisii - Kilgoris Road/Highway  
Kisii, KENYA

**f) Entity Contacts**

Telephone: (254) 0208029160  
E-mail: [countyassembly@kisii.go.ke](mailto:countyassembly@kisii.go.ke)  
Website: [www.kisii.go.ke](http://www.kisii.go.ke)

**g) Entity Bankers**

1. Central Bank of Kenya  
Haile Selassie Avenue  
P.O. Box 60000  
City Square 00200  
Nairobi, Kenya
2. Chase Bank Limited (IR)  
Kisii Branch  
P.O Box 66049-00800  
Nairobi.

**h) Independent Auditors**

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

**i) Principal Legal Adviser**

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

## 2. THE BOARD OF TRUSTEES (or any other corporate governance body for the Fund)

The Kisii county assembly service Board is entrusted as the custodian of the County Assembly Fund Resources by ensuring that the Funds are handled with compliance to the PSASB.

Name	Designation	Responsibility
1. David Kombo	Speaker	Chairperson
2. Hon. Charles Nyagoto	CASB Member	Vice chairperson
3. Hon. Daniel Apepo	CASB Member	Member
4. Dr. Joash Kerongo	CASB Member	Member
5. Dr. Carren Nyangweso	CASB Member	Member
6. Mr. James Nyaoga	Clerk	Secretary

### 3. MANAGEMENT TEAM

The county assembly car Loan and Mortgage Act, 2014 provided for a management team to oversee the disbursement and the management of loans to the members.

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2019 and who had direct fiduciary responsibility as per the Act are as follows;

- The leader of majority party
- The Leader of minority party
- Two members of the County Assembly of a different gender nominated by county assembly to represent special interest groups
- One person representing the public and appointed to the County Assembly Service Board under section 123 (d) of the County Government Act,2012.
- The County assembly Clerk who shall be the secretary of the Committee
- The Director Finance and Accounting services
- Two members of staff of different gender representing the staff.

Name	Designation	Responsibility
1. Hon.Timothy Ogugu	Leader of Majority	Chairperson
2. Hon. James Ondari	Leader of Minority	Vice Chair person
3. Hon. Risper Onguti	MCA	Member
4. Hon. Eric Janganya	MCA	Member
5. Dr. Carren Nyangweso	CASB Member	Member
6. Mr. James Nyaoga	Clerk	Secretary
7. Mr.Moses Ratemo	Senior Accountant	Member
8. Mrs.Jane Kigo	Senior Hansard and Communication Officer	Member
9. Mr. Abel Nyamwaya	Liaison Officer	Member

#### 4. BOARD/FUND CHAIRPERSON'S REPORT

The car and mortgage fund account Financial Statement was prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and in compliance with section 107 and 149 of Public Finance Management Act, 2012.

##### Budget performance

In the Financial year **2018/2019**, the County Assembly appropriated **Kshs. 50,000,000** for the Car Loan and Mortgage Fund in the initial budget. This was later enhanced to **Kshs. 80,000,000** in a supplementary budget. The Assembly received a total of **Kshs. 50,000,000** from the exchequer which accounted for about 62.5% of the budget. As at the beginning of the Financial year the Fund had an accumulated deposit of **Kshs. 290,000,000**. Adding the **Kshs. 50,000,000** received during the year, the Fund closed with a Capital deposit of **Kshs. 340,000,000**. Deposits of kshs. 275,750,000 are held with SBM and Ksh. 64,250 is held with the Kenya Deposit Insurance Corporation (KDIC).

During this period the management disbursed **Kshs. 15,050,0000** as Car and Mortgage Loans to the members. This raised the Total disbursements to **Kshs. 348,670,000** from **Kshs.333,620,000** disbursed as of the last Financial year 2017/2018. The difference between the Fund deposits and the total disbursements of **Kshs. 8,670,000** was Financed by the Fund managers ( SBM Ltd ) at no extra cost. However, this was offset against the Loan recoveries. A total of **Kshs. 90,905,266** was realised as Loan recoveries against an outstanding Loan balance of **Kshs.249,094,734** as at the end of Financial Year **2018/2019**.

##### Comment on value-for-money achievements

The main mandate of Kisii County Assembly include the following;

- i. Representation
- ii. Legislation
- iii. Oversight

The members were financed by the fund to get good housing and acquire vehicles which enabled them work effectively and efficiently for better service delivery to the electorate and achieve the above roles as enshrined in the constitution. The Loan recoveries were successful for the period and no cases of default were reported.

##### Challenges

The main challenges that were faced during the FY 2018/19 include the following;

**Underfunding**

The County Assembly of Kisii has a total of **69** MCAs, **two** members of the County Assembly Service Board and a **Speaker**.

Calculated at an average of **Kshs 5,000,000** per MCA, the members of the Service Board, and **Kshs 24,000,000** for the Speaker, the Assembly needs approximately **Kshs 379,000,000** to effectively run the Car and Mortgage fund. However the total fund deposits currently stand at **Ksh.340,000,000** which is not sufficient.

The underfunding creates a lot of pressure on management from the Members of County Assembly trying to compete to be served first. Nevertheless, the Assembly is negotiating with the County Treasury and the Controller of Budget to give this matter first priority in the coming financial year.

Sign



**Hon. Timothy Ogugu**  
**Leader of Majority**  
**Kisii County Assembly.**

## 5. REPORT OF THE FUND ADMINISTRATOR

We entered into a Memorandum of Understanding with the Kisii County Assembly Service Board on 6<sup>th</sup> December 2017 after a series of meetings. During that period i.e. from 2013 to 2017, we disbursed ksh.260 million to 72 members of county assembly. By the time we were disbursing the loans, nearly all members of county assembly did not qualify for full amounts because enough seed money was not deposited with the bank as the assembly appeared to have funding challenges. This explains the fact that only ksh.260 million was disbursed to MCAs as opposed to ksh.360 million that would have allowed disbursement of ksh.5 million to each MCA as per the SRC guidelines then.

By August 2017, all loans had been fully repaid. We did not face any challenges in recoveries save for the fact the bank was put under receivership in April 2014. In the month of September 2017, the County Assembly Board asked for a full refund of ksh.260 million from the bank. During this period the bank was under receivership and such refund would not have been possible. A number of meetings were held between the banks the receiver manager and the Kisii County Assembly Service Board. Subsequently, with the concurrence of the central bank of Kenya, funds were availed to the tune of ksh.336 million for disbursement to the MCAs. This was not enough and once again the Assembly could not provide enough funds to be disbursed to all MCAs.

On our part we ensured that all loans were insured. Recoveries have been consistent and up to date.

Signed: \_\_\_\_\_

Manager

SBM Bank.

## 6. CORPORATE GOVERNANCE STATEMENT

During the Financial Year, a total number of six (6) Board meetings were held to discuss the issue of car loan and mortgages. All members of the Board attended all meetings. Board members are appointed as follow;

1. The Speaker who chairs the board is elected by members of the County Assembly.
2. Two (2) members are nominated by the majority and minority political parties respectively.
3. Two (2) other members are competitively recruited and approved by the County Assembly.
4. The secretary is the clerk who is the accounting officer and an employee of the Board.

After every five years, all members are either replaced or reappointed through the above process. The roles and functions of the service board include;

1. Providing facilities and services to the assembly
2. Constituting offices, appointing and supervising office holders.
3. Preparing annual estimates of expenditure for the County Assembly and exercising budgeting control.
4. Performing functions necessary for the wellbeing of members and staff of the County Assembly.

The Board Members have undergone training on corporate governance with emphasis on its roles and functions. All of them including the secretary undertook the oath of office and have signed the code of conduct and ethics of public officers. They all earn a salary and receive sitting allowances as provided for by the salaries and remuneration commission (SRC) circulars.

A member of the Board may be removed from office on the following grounds:

1. a) Violation of the constitution  
b) Inability to discharge duties for any reasons  
c) Bankruptcy  
d) If convicted with a sentence of more than 6 months
2. Petition On The Above Grounds
3. End Of Term
4. Revocation Of Appointment

## 7. MANAGEMENT DISCUSSION AND ANALYSIS

The car and mortgage fund account Financial Statement was prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and in compliance with section 107 and 149 of Public Finance Management Act, 2012.

### Budget performance

**Kshs. 80,000,000** was appropriated as additional funds for the Mortgage and Car Loans Fund in the FY 2018/2019. However, the County Assembly only managed to receive **Kshs 50,000,000** from the Exchequer for reasons that the County Government did not meet its revenue target this financial year.

It's worth noting that the Assembly successfully made all loan recoveries advanced to members of the first Assembly. The Assembly therefore, started managing the fund with a carried forward deposit balance of **Kshs 290,000,000** at the beginning of the new session.

The Assembly service Board renewed the Memorandum of Understanding (MOU) with Chase Bank (IR) which took effect on the **6<sup>th</sup> December 2017**. As at 30<sup>th</sup> June 2019 the fund had accumulated deposits of **Kshs 340,000,000**. Deposits of kshs. 275,750,000 are held with SBM and Ksh. 64,250 is held with the Kenya Deposit Insurance Corporation (KDIC).

During this period the Assembly disbursed a total of **Kshs 348,000,000** as Mortgage and Car loans to its members. The difference of **Kshs 8,670,000** was financed by the Fund managers /SBM at no extra cost of which was cleared against recoveries.

A total of **Kshs 90,905,266** loan recoveries were made leaving an outstanding loan balance of **Kshs 249,094,734** at the end of FY 2018/2019.

### Comment on value-for-money achievements

The main mandate of Kisii County Assembly include the following;

- i. Representation
- ii. Legislation
- iii. Oversight

The members were financed by the fund to get good housing and acquire vehicles which enabled them work effectively and efficiently for better service delivery to the electorate and achieve the above roles as enshrined in the constitution

### Challenges

The main challenges that were faced during the FY 2018/19 include the following;

#### Underfunding

The County Assembly of Kisii has a total of 69 MCAs, **two** members of the County Assembly Service Board and a **Speaker**.

Calculated at an average of **Kshs 5,000,000** per MCA, the members of the Service Board, and **Kshs 24,000,000** for the Speaker, the Assembly needs approximately **Kshs 379,000,000** to effectively run the Car and Mortgage fund. However the total fund deposits currently stand at **Ksh. 340,000,000** which is not sufficient.

The underfunding creates a lot of pressure on management from the Members of County Assembly trying to compete to be served first. Nevertheless, the Assembly is negotiating with the County Treasury and the Controller of Budget to give this matter first priority in the coming financial year.

## 8. REPORT OF THE TRUSTEES (CASB)

### Principal activities

The principal activities of the Fund are;

Enable Loans and Mortgages to be advanced to members of Kisii County Assembly and the staff as is prescribed by the Salaries and Remuneration Commission.

With respect to the Fund, the members of the Assembly shall each be entitled to a Car and Mortgage facility as follows;

- a) A maximum Car loan facility of Kenya Shillings Two Million at Three Per centum interest rate per annum on a monthly reducing balance.
- b) A maximum Mortgage facility of Kenya Shillings at Three Million Per centum interest rate per annum on a monthly reducing balance.

Provided that the car loan shall be repayable within the legislative term of the borrower.

### Results

The results of the Fund for the year ended June 30, 2019 are set out on page 20

### Trustees

The members of the Board of Trustees who served during the year are shown on page 4. There were no changes in the Board during the financial year.

### 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

  
Member of the Board

Date: 16/07/2019

## 9. STATEMENT OF FUND ADMINISTRATOR RESPONSIBILITIES.

### Approval of the financial statements

Section 116 (7) of the Public Finance Management Act, 2012 requires that at the end each financial year, the administrator for a County public fund shall prepare financial statements in respect of that fund.

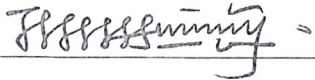
The administrator in charge of Kisii County Assembly Car and Mortgage Fund is responsible for the preparation and presentation of the fund financial statements, which give a true and fair view of the state of affairs of the fund for and as at the end of the financial year ended on June 30<sup>th</sup>, 2019. This responsibility includes;

- a) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period.
- b) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund.
- c) 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.
- d) Safeguarding the assets of the fund.
- e) Selecting and applying appropriate accounting policies; and
- f) Making accounting estimates that are reasonable in the circumstances.

The Administrator of Kisii County Assembly Car loan and Mortgage Fund accepts responsibility for the fund's financial statement, which have been prepared using appropriate accounting policies in accordance with international Public Sector Accounting Standards (IPSAS). The Administrator is of the opinion that the Fund's financial statements give a true and fair view of the state of fund's transactions during the financial year ended June 30<sup>th</sup>, 2019, and of the fund's financial position as at that date. The Administrator of Kisii County Assembly Car loan and Mortgage Fund further confirms that the completeness of the accounting records maintained for Fund, which

have been relied in the presentation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

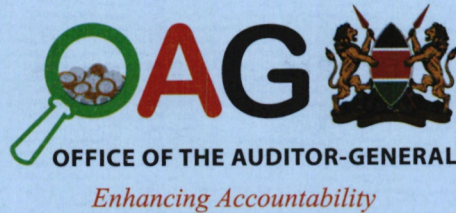
The County assembly Car & Mortgage loan financial statements were approved and signed by the Clerk of the County Assembly on 16<sup>th</sup> July 2019.



Clerk of the County Assembly

# REPUBLIC OF KENYA

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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON KISII COUNTY ASSEMBLY CAR LOAN AND MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2019**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Kisii County Assembly Car Loan and Mortgage Fund set out on pages 16 to 54, 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kisii County Assembly Car Loan and Mortgage Fund as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kisii County Assembly Car Loan and Mortgage Scheme Fund, 2013 and the Public Finance Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1. Long-Term Receivables from Exchange Transactions**

The statement of financial position reflects long-term receivables from exchange transactions balance of Kshs.249,094,734. Included in this is an amount of Kshs.192,750,000 deposited and held in Chase Bank, which was placed in receivership by the Central Bank of Kenya in April 2016.

Under the circumstances the recoverability of the amount of Kshs.192,750,000 as at 30 June, 2019 could not be confirmed.

## **2. Cash and Cash Equivalents**

Included in cash and cash equivalents balance of Kshs.90,905,266 is an amount of Kshs.64,250,000 which the Management explained as having been transferred from Chase Bank to Kenya Deposit Insurance Corporation by the Central Bank of Kenya. This balance was not supported by a certificate of bank balance as at 30 June, 2019.

Consequently, the completeness and accuracy of cash and cash equivalents balance of Kshs.90,905,266 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kisii County Assembly Car Loan and Mortgage Fund 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

## **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 matters described in the Basis for Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Loans Advanced to Members**

A review of application requests for loans revealed that the application forms from four (4) Members of County Assembly (MCAs) amounting to Kshs.15,050,000 were not adequately supported with the relevant documents such as approved copies of the designs of the proposed structure, bills of quantities, and official search of the titles to confirm the ownership. These documents were not presented to the committee prior to the approval and disbursement of the loans.

Consequently, the regularity and validity of the loans advanced to the members of Kshs.15,050,000 cannot be confirmed.

## **2. Failure to Charge Securities Offered for the Loans**

During the audit, it was noted that the Fund did not have a charge register in place and the securities provided including the logbooks and title deeds were not charged for the loans as prescribed in the Fund's regulations or held jointly in the name of the Fund and respective borrowers as required. As a result, it will be impossible to dispose-off the securities in case of default where the Fund is not registered as a co-owner of the charged property.

Consequently, the Fund is in breach of the regulations.

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

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, 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 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 those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 ability of Kisii County Assembly Car Loan and Mortgage Fund to sustain its services , disclosing as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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 non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 ability of Kisii County Assembly Car Loan and Mortgage Fund 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 sustaining 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 Kisii County Assembly Car Loan and Mortgage 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**

**26 October, 2021**

## 11. FINANCIAL STATEMENTS

### 11.1 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2019

	Note	FY2018/2019	FY2017/2018
		KShs	KShs
<b>Revenue from non-exchange transactions</b>			
Public contributions and donations	1	-	-
Transfers from the County Government	2	-	-
Fines, penalties and other levies	3	-	-
<b>Revenue from exchange transactions</b>			
Interest income	4	8,293,036	3,379,893
Other income	5	-	-
<b>Total revenue</b>		<b>8,293,036</b>	<b>3,379,893</b>
<b>Expenses</b>			
Fund administration expenses	6	8,293,036	3,379,893
Staff Costs	7	-	-
General expenses	8	-	-
Finance costs	9	-	-
<b>Total expenses</b>		<b>8,293,036</b>	<b>3,379,893</b>
<b>Other gains/losses</b>			
Gain/loss on disposal of assets	10	-	-
<b>Surplus/( deficit)for the period</b>		<b>-</b>	<b>-</b>

The notes set out on pages 36 to 50 form an integral part of these Financial Statements

**Kisii County Assembly Car and Mortgage loan  
Reports and Financial Statements  
For the year ended June 30, 2019**

**11.2 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019**

	Note	FY2018/2019 KShs	FY2017/2018 KShs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	11	90,905,266	23,846,534
Current portion of long term receivables from exchange transactions	12	-	-
Prepayments	13	-	-
Inventories	14	-	-
<b>Non-current assets</b>			
Property, plant and equipment	15	-	-
Intangible assets	16	-	-
Long term receivables from exchange transactions	12	249,094,734	309,773,466
<b>Total assets</b>		<b>340,000,000</b>	<b>333,620,000</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	17	-	-
Provisions	18	-	-
Current portion of borrowings	19	-	-
Employee benefit obligations	20	-	-
<b>Non-current liabilities</b>			
Non-current employee benefit obligation	20	-	-
*Long term portion of borrowings	19	-	43,620,000
<b>Total liabilities</b>			
<b>Net assets</b>			
Revolving Fund		340,000,000	290,000,000
Reserves		-	-
Accumulated surplus		-	-
<b>Total net assets and liabilities</b>		<b>340,000,000</b>	<b>333,620,000</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 16<sup>th</sup> July 2019 and signed by:

\_\_\_\_\_  
Administrator of the Fund  
Name:

\_\_\_\_\_  
Fund Accountant  
Name: Selina A. Onchange  
ICPAK Member Number:

*Kisii County Assembly Car and Mortgage loan*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

**11.3 STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2019**

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
<b>Balance as at 1 July 2017</b>				
Surplus/(deficit) for the period	260,000,000	-	-	260,000,000
Funds received during the year	30,000,000	-	-	30,000,000
Revaluation gain	-	-	-	-
<b>Balance as at 30 June 2018</b>	<b>290,000,000</b>	<b>-</b>	<b>-</b>	<b>290,000,000</b>
<b>Balance as at 1 July 2018</b>	<b>290,000,000</b>	<b>-</b>	<b>-</b>	<b>290,000,000</b>
Surplus/(deficit)for the period	-	-	-	-
Funds received during the year	50,000,000	-	-	50,000,000
Revaluation gain	-	-	-	-
<b>Balance as at 30 June 2019</b>	<b>340,000,000</b>	<b>-</b>	<b>-</b>	<b>340,000,000</b>

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

**11.4 STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2019**

	Note	FY2018/2019	FY2017/2018
		KShs	KShs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Public contributions and donations		-	-
Transfers from the County Government		-	-
Interest received	4	8,293,036	3,379,893
Receipts from other operating activities		-	-
<b>Total Receipts</b>		<b>8,293,036</b>	<b>3,379,893</b>
<b>Payments</b>			
Fund administration expenses	6	8,293,036	3,379,893
General expenses			
Finance cost			
<b>Total Payments</b>		<b>8,293,036</b>	<b>3,379,893</b>
<b>Net cash flows from operating activities</b>	21	<b>-</b>	<b>-</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets		-	-
Proceeds from sale of property, plant and equipment		-	-
Proceeds from loan principal repayments	11	51,882,199	23,846,534
Loan disbursements paid out		-15,050,000	-333,620,000
<b>Net cash flows used in investing activities</b>		<b>36,832,199</b>	<b>-309,773,466</b>
<b>Cash flows from financing activities</b>			
Proceeds from revolving fund receipts	2	50,000,000	30,000,000
Additional borrowings	19		43,620,000
Repayment of borrowings		-43,620,000	-

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

<b>Net cash flows used in financing activities</b>		<b>6,380,000</b>	<b>73,620,000</b>
<b>Net increase/(decrease)in cash and cash equivalents</b>		<b>67,058,732</b>	<b>-236,153,466</b>
Cash and cash equivalents at 1 JULY	11	23,846,534	260,000,000
<b>Cash and cash equivalents at 30<sup>th</sup> JUNE</b>	11	<b>90,905,266</b>	<b>23,846,534</b>

*Kisii County Assembly Car Loan and Mortgage Fund*  
 Reports and Financial Statements  
 For the year ended June 30, 2019

11.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30<sup>th</sup> JUNE 2019

	Original budget 2019	Adjustments 2019	Final budget 2019	Actual on comparable basis 2019	Performance difference 2019	% utilization 2019
	KShs	KShs	KShs	KShs	KShs	
<b>Revenue</b>						
Public contributions and donations						
Transfers from County Govt.	50,000,000	30,000,000	80,000,000	50,000,000	30,000,000	63%
Interest income (3%)	10,200,000	-	10,200,000	8,293,036	1,906,036	81%
Other income						
<b>Total income</b>	<b>60,200,000</b>	<b>30,000,000</b>	<b>90,200,000</b>	<b>58,293,036</b>	<b>31,906,036</b>	<b>65%</b>
<b>Expenses</b>						
Fund administration expenses	10,200,000	-	10,200,000	8,293,036	1,906,036	81%
Staff costs						
General expenses						
Finance cost	50,000,000	30,000,000	80,000,000	50,000,000	30,000,000	63%
<b>Total expenditure</b>	<b>60,200,000</b>	<b>30,000,000</b>	<b>90,200,000</b>	<b>58,293,036</b>	<b>31,906,036</b>	<b>65%</b>
<b>Surplus for the period</b>						

**11.6 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 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 2018**

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> 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 2018**

Standard	Effective date and impact:
<b>IPSAS 40: Public Sector Combinations</b>	<b>Applicable: 1<sup>st</sup> January 2019:</b> 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 did not early – adopt any new or amended standards in year 2018.

**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 original budget for FY 2018/2019 was approved by the County Assembly on 16<sup>th</sup> June 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded no additional appropriations on the 2018-2019 budget.

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.

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

---

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 8 of these financial statements.

**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.

***Kisii County Assembly Car Loan and Mortgage Fund***  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

---

***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.

***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 the 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 the 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***

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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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***

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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.

*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.

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.

**11. 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.

## **12. 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.

## **13. 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.

## **14. 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.

## **15. 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.

## **16. Comparative figures**

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

## **17. Events after the reporting period**

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

## **18. Ultimate and Holding Entity**

The entity is a County Public Fund established by the public finance management Act no 18 of 2012 under the Ministry of finance. Its ultimate parent is the County Assembly of Kisii

## **19. Currency**

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

## **20. 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, 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

**Kisii County Assembly Car Loan and Mortgage Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

**Provisions**

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.

**21. Financial risk management**

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

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

**a) Credit risk**

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

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.<sup>312</sup>

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

	Total amount KShs	Fully performing KShs	Past due KShs	Impaired KShs
<b>At 30 June 2019</b>				
Receivables from exchange transactions	249,094,734	249,094,734	-	-
Receivables from non-exchange transactions				

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

Bank balances	90,905,266		
<b>Total</b>	<b>340,000,000</b>	<b>249,094,734</b>	<b>-</b>
<b>At 30 June 2018</b>			
Receivables from exchange transactions	309,773,466	309,773,466	
Receivables from non-exchange transactions			
Bank balances	23,846,534	-	-
<b>Total</b>	<b>333,620,000</b>	<b>309,773,466</b>	<b>-</b>
<i>NB; The Bank Balances are the total principle Loan Recoveries made as at 30<sup>th</sup> June 2019.</i>			

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of trustees sets the Fund's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

**b) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Fund Administrator, who has built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity 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.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	KShs	KShs	KShs	KShs
<b>At 30 June 2019</b>				
Trade payables	-	-	-	-
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Employee benefit obligation	-	-	-	-
<b>Total</b>	-	-	-	-
<b>At 30 June 2018</b>				
Trade payables	-	-	-	-

*Kisii County Assembly Car Loan and Mortgage Fund*  
 Reports and Financial Statements  
 For the year ended June 30, 2019

Current portion of borrowings	-	43,620,000	-	43,620,000
Provisions	-	-	-	-
Employee benefit obligation	-	-	-	-
<b>Total</b>	-	<b>43,620,000</b>	-	<b>43,620,000</b>

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**c) Market risk**

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

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

The Fund's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

**i. Foreign currency risk**

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

		Other currencies	Total
	KShs	KShs	KShs
<b>At 30 June 2018</b>			
Financial assets (investments, cash ,debtors)	-	-	-
	-	-	-
Liabilities	-	-	-
Trade and other payables	-	-	-
Borrowings	-	-	-
	-	-	-
Net foreign currency asset/(liability)	-	-	-

The Fund manages foreign exchange risk form future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Foreign currency sensitivity analysis**

The following table demonstrates the effect on the Fund's statement of financial performance on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on surplus/ deficit	Effect on Equity
	KShs	KShs	KShs
<b>2019</b>			
Euro	10%	-	-
USD	10%	-	-
<b>2018</b>			
Euro	10%	-	-
USD	10%	-	-

**ii. Interest rate risk**

*Kisii County Assembly Car Loan and Mortgage Fund*  
Reports and Financial Statements  
For the year ended June 30, 2019

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

*Management of interest rate risk*

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

*Sensitivity analysis*

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

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 8,293,036 (KShs 8,293,036). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of nil (nil).

*Kisii County Assembly Car Loan and Mortgage Fund*  
 Reports and Financial Statements  
 For the year ended June 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 entity capital structure comprises of the following funds:

	2019		2018
	KShs		KShs
Revaluation reserve	-		-
Revolving fund	340,000,000		290,000,000
Accumulated surplus	-		-
<b>Total funds</b>	<b>340,000,000</b>		<b>290,000,000</b>
Total borrowings	-		43,620,000
Less: cash and bank balances	90,905,266		23,846,534
Net debt/(excess cash and cash equivalents)	249,094,734		309,773,466
<b>Gearing</b>	-		16 %

*Kisii County Assembly Car Loan and Mortgage Fund*  
 Reports and Financial Statements  
 For the year ended June 30, 2019

11.7 NOTES TO THE FINANCIAL STATEMENTS

1. Public contributions and donations

Description	FY2018/2019 KShs	FY2017/2018 KShs
Donation from development partners	-	-
Contributions from the public	-	-
<b>Total</b>	-	-

2. Transfers from County Government

Description	FY2018/2019 KShs	FY2017/2018 KShs
Transfers from County Govt. – operations	-	-
Payments by County on behalf of the entity	-	-
<b>Total</b>	-	-

3. Fines, penalties and other levies

Description	FY2018/2019 KShs	FY2017/2018 KShs
Late payment penalties	-	-
Fines	-	-
<b>Total</b>	-	-

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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**4. Interest income**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Interest income from loans (mortgage or car loans) 3% charged on members.	8,293,036	3,379,893
<b>Total interest income</b>	<b>8,293,036</b>	<b>3,379,893</b>

*(NB; Income generated is the accrued interest (3%) out of the loans disbursed which is absorbed by Chase bank (K) Limited as Administrative expenses as per MOU).*

**5. Other income**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Insurance recoveries	-	-
Income from sale of tender documents	-	-
Miscellaneous income	-	-
<b>Total other income</b>	<b>-</b>	<b>-</b>

**6. Fund administration expenses**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Loan processing costs	-	-

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

Professional services costs	-	-
<b>Total</b>	-	-

**7. Staff costs**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Salaries and wages	-	-
Staff gratuity	-	-
Staff training expenses	-	-
Social security contribution	-	-
Other staff costs	-	-
<b>Total</b>	-	-

*Kisii County Assembly Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2019*

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

**8. General expenses**

Description	FY2018/2019 KShs	FY2017/2018 KShs
Consumables	-	-
Electricity and water expenses	-	-
Fuel and oil costs	-	-
Insurance costs	-	-
Postage	-	-
Printing and stationery	-	-
Rental costs	-	-
Security costs	-	-
Telecommunication	-	-
Hospitality	-	-
Depreciation and amortization costs	-	-
Other expenses (administration expenses)	8,293,036	3,379,893
<b>Total</b>	<b>8,293,036</b>	<b>3,379,893</b>

*(NB; The expenses are the accrued interest (3%) out of the loans disbursed which form Administrative expenses by Chase bank (K) Limited as per MOU).*

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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

**9. Finance costs**

Description	FY2018/2019	FY2016/2017
	KShs	KShs
Interest on Bank overdrafts	-	-
Interest on loans from banks	-	-
<b>Total</b>	-	-

**10. Gain on disposal of assets**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Property, plant and equipment	-	-
Intangible assets	-	-
<b>Total</b>	-	-

**11. Cash and cash equivalents**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Fixed deposits account	249,094,734	23,846,534
On – call deposits	-	-
Current account	-	-

*Kisii County Assembly Car Loan and Mortgage Fund  
 Reports and Financial Statements  
 For the year ended June 30, 2019*

Others	-	-
<b>Total cash and cash equivalents</b>	<b>90,905,266</b>	<b>23,846,534</b>

*(The amount should agree with the closing and opening balances as included in the statement of cash flows)*

*(NB; The balance is the principal repaid as at 30<sup>th</sup> June 2019.)*

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

**NOTES TO THE FINANCIAL STATEMENTS01 (CONTINUED)**

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

		FY2018/2019	FY2017/2018
Financial institution	Account number	KShs	KShs
<b>a) Fixed deposits account</b>			
Chase Bank Ltd (IR)/SBM Bank		90,905,266	23,846,534
		-	-
<b>Sub- total</b>		-	-
<b>b) On - call deposits</b>			
Kenya Commercial bank		-	-
Equity Bank - etc		-	-
<b>Sub- total</b>		-	-
<b>c) Current account</b>			
Kenya Commercial bank		-	-
Bank B		-	-
<b>Sub- total</b>		-	-
<b>d) Others(specify)</b>			
Cash in transit		-	-
Cash in hand		-	-
M Pesa		-	-
<b>Sub- total</b>		-	-
<b>Grand total</b>		<b>90,905,266</b>	<b>23,846,534</b>

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

**12. Receivables from exchange transactions**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
<b>Current Receivables</b>		
Interest receivable		
Current loan repayments due		
Other exchange debtors		
Less: impairment allowance		
<b>Total Current receivables</b>		
<b>Non-Current receivables</b>		
Long term loan repayments due	249,094,734	309,773,466
<b>Total Non-current receivables</b>	<b>249,094,734</b>	<b>309,773,466</b>
<b>Total receivables from exchange transactions</b>	<b>249,094,734</b>	<b>309,773,466</b>

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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

**13. Prepayments**

Description	FY2018/2019 KShs	FY2017/2018 KShs
Prepaid rent	-	-
Prepaid insurance	-	-
Prepaid electricity costs	-	-
<b>Total</b>	-	-

**14. Inventories**

Description	FY2018/2019 KShs	FY2017/2018 KShs
Consumable stores	-	-
Spare parts and meters	-	-
Catering	-	-
<b>Total inventories at the lower of cost and net realizable value</b>	-	-

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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

**15. Property, plant and equipment**

Cost	Land and Buildings KShs.	Motor vehicles KShs.	Furniture and fittings KShs.	Computers and office equipment KShs.	Total KShs.
<b>At 1<sup>st</sup> July 2017</b>					
Additions					
Disposals					
Transfers/adjustments					
<b>At 30<sup>th</sup> June 2018</b>					
<b>At 1<sup>st</sup> July 2018</b>					
Additions					
Disposals					
Transfer/adjustments					
<b>At 30<sup>th</sup> June 2019</b>					
<b>Depreciation and impairment</b>					
<b>At 1<sup>st</sup> July 2017</b>					
Depreciation					
Impairment					
<b>At 30<sup>th</sup> June 2018</b>					
<b>At 1<sup>st</sup> July 2018</b>					
Depreciation					
Disposals					
Impairment					
Transfer/adjustment					
<b>At 30<sup>th</sup> June 2019</b>					
<b>Net book values</b>					
<b>At 30<sup>th</sup> June 2018</b>					
<b>At 30<sup>th</sup> June 2019</b>					

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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

**16. Intangible assets-software**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
<b>Cost</b>		
<b>At beginning of the year</b>		
Additions		
<b>At end of the year</b>		
<b>Amortization and impairment</b>		
<b>At beginning of the year</b>		
Amortization		
<b>At end of the year</b>		
Impairment loss		
<b>At end of the year</b>		
<b>NBV</b>		

**17. Trade and other payables from exchange transactions**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Trade payables		
Refundable deposits		
Accrued expenses		
Other payables		
<b>Total trade and other payables</b>		

**18. Provisions**

Description	Leave provision	Bonus provision	Other provision	Total
	KShs	KShs	KShs	KShs
Balance at the beginning of the year				
Additional Provisions				
Provision utilised				
Change due to discount and time value for money				
Transfers from non -current provisions				
<b>Total provisions</b>				

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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

**19. Borrowings**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
<b>Balance at beginning of the period</b>	-	-
External borrowings during the year	-	43,620,000
Domestic borrowings during the year	-	-
Repayments of external borrowings during the period	-	-
Repayments of domestics borrowings during the period	-	-
<b>Balance at end of the period</b>	-	<b>43,620,000</b>

The table below shows the classification of borrowings into external and domestic borrowings:

Description	FY2018/2019	FY2017/2018
	KShs	KShs
<b>External Borrowings</b>		
Dollar denominated loan from 'xxx organization'	-	-
Sterling Pound denominated loan from 'yyy organization'	-	-
Euro denominated loan from zzz organization'	-	-
<b>Domestic Borrowings</b>		
Kenya Shilling loan from SBM bank	-	43,620,000
Kenya Shilling loan from Barclays Bank	-	-
Kenya Shilling loan from Consolidated Bank	-	-
Borrowings from other government institutions	-	-
<b>Total balance at end of the year</b>	-	<b>43,620,000</b>

The table below shows the classification of borrowings long-term and current borrowings:

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Short term borrowings(current portion)	-	-
Long term borrowings	-	43,620,000
<b>Total</b>	-	<b>43,620,000</b>

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

**20. Employee benefit obligations**

Description	Defined benefit plan	Post employment medical benefits	Other Provisions	Total
	KShs	KShs	KShs	KShs
Current benefit obligation				
Non-current benefit obligation				
<b>Total employee benefits obligation</b>				

**21. Cash generated from operations**

	FY2018/2019	FY2017/2018
	KShs	KShs
<b>Surplus for the year before tax</b>		
<b>Adjusted for:</b>		
Depreciation	-	-
Gains/losses on disposal of assets		
Interest income	8,293,036	3,379,893
Finance cost	(8,293,036)	(3,379,893)
<b>Working Capital adjustments</b>		
Increase in inventory	-	-
Increase in receivables	-	-
Increase in payables	-	-
<b>Net cash flow from operating activities</b>	-	-

**22. 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;
- b) The Parent County Government Ministry;
- c) Key management;
- d) Board of Trustees; etc

*Kisii County Assembly Car Loan and Mortgage Fund*  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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

**b) Related party transactions**

	FY2018/2019	FY2017/2018
	KShs	KShs
Transfers from related parties'	-	-
Transfers to related parties	-	-

**c) Key management remuneration**

	FY2018/2019	FY2017/2018
	KShs	KShs
Board of Trustees	-	-
Key Management Compensation	-	-
<b>Total</b>	-	-

**d) Due from related parties**

	FY2018/2019	FY2017/2018
	KShs	KShs
Due from parent Ministry	-	-
Due from County Government	-	-
<b>Total</b>	-	-

**e) Due to related parties**

	FY2018/2019	FY2017/2018
	KShs	KShs
Due to parent Ministry	-	-
Due to County Government	-	-
Due to Key management personnel	-	-
<b>Total</b>	-	-

**23. Contingent assets and contingent liabilities**

Contingent liabilities	FY2018/2019	FY2017/2018
	KShs	KShs
Court case against the Fund	-	-
Bank guarantees	-	-
<b>Total</b>	-	-

**12. 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: (Put a date when you expect the issue to be resolved)
2	Prior year Balance Lacking	Prior year Financials Renconcialled.	Dennis Ongeru Aamba Finance Officer II	Resolved	

**Guidance Notes:**

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