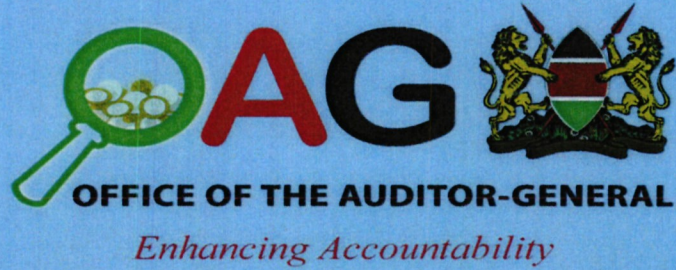
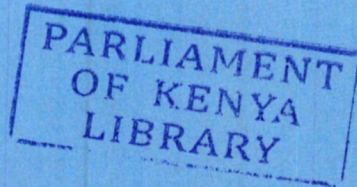


REPUBLIC OF KENYA



**REPORT**



**OF**

**THE AUDITOR-GENERAL**

**ON**

**STATE OFFICERS HOUSE  
MORTGAGE SCHEME FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2020**

**STATE DEPARTMENT FOR HOUSING  
AND URBAN DEVELOPMENT**





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

**STATE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**STATE OFFICERS HOUSE MORTGAGE SCHEME FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2020**

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

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**I. KEY ENTITY INFORMATION AND MANAGEMENT**

**Background information Principal activities**

The State Officers House Mortgage Scheme Fund (SOHMSF) was established in 2015, through legal notice no. 23 of 6<sup>th</sup> March 2015 under the Public Finance Management Act. This was pursuant to guidelines provided by Salaries and Remuneration Commission on mortgage benefit for State officers and other Public Servants in December 2014. The establishment of the fund is in line with the National Housing Policy for Kenya 2004 (Sessional Paper No. 3). The policy among other things called for facilitation of employers to assist their employees to acquire housing.

The Cabinet Secretary in charge for the National Treasury is responsible for the general policy and strategic direction of the SOHMSF whereas the principal secretary is the administrator of the Fund. The cabinet Secretary to the National Treasury on July, 2015 approved full delegation of the operations and management of the SOHMSF on interim basis to the Civil Servants Housing Scheme Fund (CSHSF).

**(a) Principal Activities**

The Constitution under Articles 42 and 43 accords every person the right to a clean and healthy environment, and the right to accessible and adequate housing, and to reasonable standards of sanitation. The Salaries and Remuneration Commission on 17<sup>th</sup> December, 2014 set and advised on the car and mortgage benefits for all state officers and other public officers in Kenya. The objective and purpose for which the Fund was established is to provide a loan Scheme for purchase or development of property by the State officers.

**(b) Fiduciary Management**

During the financial year under focus SOHMSF operations were undertaken by CSHSF Secretariat and administered by the Officer Administering the Fund – the Principal Secretary, State Department for Housing and Urban Development, Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works. The Officer administering the Fund therefore hereby submits the report of the Fund and the financial statements for the year ended 30 June 2020 which show the state of the Fund affairs.

**KEY ENTITY INFORMATION AND MANAGEMENT (Continued)**

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.  | Principal Secretary | - <b>Charles M. Hinga</b>      |
| 2.  | Ag Director CSHSF   | - <b>Simon Odhiambo Opondo</b> |
|     |                     |                                |

**(c) Fiduciary Oversight Arrangements**

The overall oversight role of the Fund lies with the Parliamentary Public Accounts Committee. Pursuant to section 18 of the Government Financial Management Act, 2004 and section 9 (e) of the legal notice no. 168 (Legislative Supplement No. 51) of 22<sup>nd</sup> December 2006, the Fund Auditors remains the Auditor General of the Government of Kenya. Internal audit for the Scheme is carried by the audit section within the Ministry of Transport, Infrastructure, Housing, Urban development and Public Works.

**(d) Entity Headquarters**

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

**(e) Entity Contacts**

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

**(f) Entity Bankers**

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

KEY ENTITY INFORMATION AND MANAGEMENT (Continued)



**(g) Independent Auditors**

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




**(h) Principal Legal Adviser**

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





**II. SCHEME MANAGEMENT COMMITTEE (SMC) MEMBERS OF THE STATE OFFICERS HOUSING MORTGAGE SCHEME FUND (SOHMSF)**

| NAME  | MEMBERSHIP DESCRIPTION.  | KEY ACADEMIC AND PROFESSIONAL QUALIFICATION.  |
|---|--|---|
| <br>Charles M. Hinga         | Principal Secretary for Housing and Urban Development and Officer administering the Fund | Charles is a Chartered Accountant (CA) and holds a Bachelor of Commerce (Accounting) degree from Kenyatta University and a Bachelor of Accounting Science (Honors) from University of South Africa. His core competencies include project and structured finance, deal structuring and business development. Until the time of his appointment as the Principal Secretary of Housing, Urban Development, he was the Group Chairman of an advisory boutique with presence in South Africa and Kenya. |
|                             | Representing the Principal Secretary, National Treasury.                                 | Boniface Orori Simba is a Senior Administrative Secretary in the National Treasury with 26 years of public administration and management. He holds a Master of Business Administration, Strategic Management and a Bachelor Of Arts, Public Administration.   |
| <br>Geoffrey Apollo Omondi | Representing the Principal Secretary, Labour   | Geoffrey Omondi was born in 1959. He is a Deputy Labour Commissioner in the Ministry of East African Community, Labour, Social Protection. He previously worked as a Lecturer in Industrial Relations at Kenya Institute Personnel Management and Railway Training Institute. He holds a Master of Arts in Labour and Development Studies and Bachelor of Arts (Hons) in Political Science and Sociology.   |

State Officers House Mortgage Scheme Fund  
 Reports and Financial Statements  
 For the Year ended June 30, 2020

|  |   |   |
|--|---|---|
|  <p>Allan Ng'ang'a Mwaura</p> | <p>Representing the Principal Secretary, Public Service and Youth Affairs</p> | <p>Mr. Allan Ng'ang'a Mwaura is a Deputy Director in the State Department of Public Service and Youth. He holds a Bachelor of Education (Arts) and Masters of Education Administration. He has attained professional development courses locally, regionally and internationally. Has served in the Education sector under the Teachers Service Commission as Secondary School teacher, head of Languages Department, KNEC examiner and Deputy Principal. He has attended Strategic Leadership Development Programme. He holds Certificate in Human Resource Management and Educational Administration. Mr. Mwaura is also associate member of Kenya Institute Management</p> |
|  <p>John W. Gitu</p>         | <p>Representing the Principal Secretary, Infrastructure</p>                   | <p>John W. Gitu is the Director, Human Resource and Development in the State Department of Infrastructure. He holds Masters of Science (MSc) in Human Resource Management, Bachelor of Arts Degree, Post Graduate Diploma in Human Resource Management. He is a registered member of the Institute of Human Resource Management. He is a Human Resource Practitioner with over 28 years' experience.</p>  |
|  <p>Christine K. Ileli</p>  | <p>Representing the Attorney General</p>                                      | <p>Christine is an advocate of the High Court of Kenya with a Bachelor of Laws (LL. degree and Master of Laws (LL.M) from the University of Nairobi, a Post Graduate Diploma in Legal Studies from the Kenya School of Law and a member of the Law Society of Kenya. She is a Principal State Counsel at the Office of the Attorney General and Department of Justice, currently under the Government Transactions Division with experience international Commercial Law, International Law and Land Laws.</p>  |

**III. MEMBERS OF THE STATE OFFICERS HOUSING MORTGAGE SCHEME FUND (SOHMSF)**

| NAME  | AREA OF RESPONSIBILITY                       | KEY ACADEMIC AND PROFESSIONAL QUALIFICATION.  |
|---|--|---|
| <br>Mr. Simon O. Opondo      | Mr. Simon O. Opondo is the Ag Director CSHSF | <ul style="list-style-type: none"> <li>• MSc Architecture, MAAK</li> <li>• Registered Architect</li> </ul>  |
| <br>Mr. Julius G. Wairagu   | Project Manager                              | Bachelor of Architecture<br>Registered Architect  |
| <br>Mr. Boniface M. Ngochi | Estate Manager                               | <ul style="list-style-type: none"> <li>• BA(Hons)Land Economics</li> <li>• Member of the Institution of Surveyors of Kenya (MISK)</li> </ul>  |
| <br>Fredrick K. Karuen     | Scheme Accountant                            | <ul style="list-style-type: none"> <li>• MBA(Finance)</li> <li>• BA (Finance and Accounting)</li> <li>• CPA(K)</li> <li>• Member Institute of Certified Public Accountants (ICPAK)</li> </ul> |

## **VII. MANAGEMENT DISCUSSION AND ANALYSIS**

Demand for the housing loans under the Scheme grew within the financial year. That was supported by appointment of new state Officers after tenure for previous holders expired. Twenty Four (24) new applications were received and forwarded to the mortgage management bank for processing.

All fully processed applications were financed. Twenty two (22) applications were fully processed within the reporting and funds amounting to Kshs 616,253,079 disbursed.

Beneficiaries were repaying loans promptly. However, seventeen (17) cases were restructured on account of COVID-19 unforeseen impacts line with the advisory given by the Cabinet Secretary, the National Treasury.

The Fund has accomplished the following:

- a) 157 applications were completed, returned with support documents and recommended to bank for processing of the loans worth about Kshs.4.185 billion
- b) 123 Loans fully disbursed to applicants worth about Kshs.3.179 billion
- c) 16 applications worth about Kshs.273 million were approved pending disbursement
- d) 10 applications pending approval as at 30<sup>th</sup> June, 2020

The Fund is faced with the following risks and challenges:

- a) Default in repayment after employment term or contract
- b) Continued requests for financing from officers who are not State Officers especially senior Civil Servants who are job groups equivalent to those of state officers
- c) Request for financing agricultural properties which may be difficult realise the security in event of default
- d) Requests for a second benefit from state officers who are either re-appointed for a second term or whose entitlements have changed on account for appointment to a higher position.

#### **IV. CABINET SECRETARY'S STATEMENT**

##### ***The Cabinet Secretary's Report***

To ensure adequate and affordable access to housing to State Officers, the SOHMSF regulations are in the process of being amended to incorporate the following:

- i. To introduce equity release for development
- ii. Give administrative powers to the Committee to facilitate the mortgage process
- iii. To lower the unexpired lease term of property being financed to 35 years

#### **V. REPORT OF THE PRINCIPAL SECRETARY**

##### ***Administrator of Fund Report***

The management of the Fund is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Fund and of its operating results. The management of the Fund further accepts the responsibility for the maintenance of accounting records, which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

The Fund has accomplished the following:

- a) 157 applications were completed, returned with support documents and recommended to bank for processing of the loan's worth about Kshs.4.185 billion
- b) 123 Loans fully disbursed to applicants worth about Kshs.3.179 billion
- c) 16 applications worth about Kshs.273 million were approved pending disbursement
- d) 10 applications pending approval

##### ***Challenges***

Regulations not covering the following areas:

- i. Purchase & improvement of house
- ii. Purchase of plot for future development of a residential house

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Reports and Financial Statements  
For the Year ended June 30, 2020

**Other areas of consideration:**

- iii. Requirement for unexpired lease term of at least 45 years
- iv. Comprehensive list of state officers
- v. Termination of employment when the loan is being processed
- vi. Applications which are not for residential purpose
- vii. Inadequacy of Funds
- viii. Introduction of other banks
- ix. Arrears by officers whose terms have expired
- x. Unforeseen impacts of COVID-19

*A going concern*

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

## **VI. CORPORATE GOVERNANCE STATEMENT**

The management of the SOHMSF was delegated on interim basis to the CSHSF. The Scheme Management Committee comprises seven (7) members as provided under regulation 6 of the CSHSF who are:

- i. the Officer administering the Fund;
- ii. the Principal Secretary responsible for the National Treasury;
- iii. the Principal Secretary responsible for Labour, Social Security and Services;
- iv. the Principal Secretary responsible for Human Resource Management and Development;
- v. the Principal Secretary responsible for infrastructure;
- vi. the Principal Secretary responsible for Coordination of National Government; and
- vii. the Attorney-General;

The Scheme Management committee held three meetings during the reporting period. Attendance of meeting averaged 75%.

The functions of the Committee are: supervise and control the day to day administration of the Fund; determine and regulate interest payable by loanees; approve all housing development and financing proposals; enter into agreement with persons or legal entities for the purposes of providing services to the Fund; develop criteria for the beneficiaries of the Fund; establish management guidelines and engage such staff as may be necessary to assist the Committee and the officer administering the Fund; and such other duty as may be directed by the Cabinet Secretary for the purposes of the proper management of the Fund.

### **VIII. REPORT OF THE SCHEME COMMITTEE**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the State Officers Housing Mortgage scheme Fund's affairs.

#### **Principal activities**

The objective and purpose for which the Fund was established is to provide a loan Scheme for purchase or development of property by the State officers.

#### **Results**

The results of the entity for the year ended June 30, 2020 are set out on page 14 to 36.

#### **Directors**

The members of the scheme committee who served during the year are shown on page 9.

#### **Auditors**

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

By Order of the Board

Principal Secretary

State Department of Housing and Urban Development

Date:...

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke, positioned over a dotted line.

## **IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 require the Directors to prepare financial statements in respect of that State Officers House Mortgage Scheme Fund, which give a true and fair view of the state of affairs of the State Officers House Mortgage Scheme Fund at the end of the financial year/period and the operating results of the State Officers Housing Mortgage scheme Fund's for that year. The Directors are also required to ensure that the State Officers House Mortgage Scheme Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the State Officers House Mortgage Scheme Fund. The Directors are also responsible for safeguarding the assets of the State Officers House Mortgage Scheme Fund.

The Directors are responsible for the preparation and presentation of the State Officers Housing Mortgage scheme Fund's financial statements, which give a true and fair view of the state of affairs of the State Officers House Mortgage Scheme Fund for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the State Officers House Mortgage Scheme Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the State Officers House Mortgage Scheme Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Directors are of the opinion that the State Officers House Mortgage Scheme Fund's financial statements give a true and fair view of the state of State Officers House Mortgage Scheme Fund's transactions during the financial year ended June 30, 2020, and of the State Officers House Mortgage Scheme Fund's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the State Officers House Mortgage Scheme Fund, which have been relied upon in the preparation of the State Officers House Mortgage Scheme Fund's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the State Officers House Mortgage Scheme Fund will not remain a going concern for at least the next twelve months from the date of this statement.

### **Approval of the financial statements**

The State Officers Housing Mortgage scheme Fund's financial statements were approved by the Board on \_\_\_\_\_ 2020 and signed on its behalf by:



Charles M. Hinga, CBS

Principal Secretary



Simon Odhiambo Opondo

Ag. Director CSHSF

# REPUBLIC OF KENYA

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Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON STATE OFFICERS HOUSE MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE, 2020 - STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT**

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

#### **Qualified Opinion**

I have audited the accompanying financial statements of State Officers House Mortgage Scheme Fund set out on pages 16 to 38, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects 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 the State Officers House Mortgage Scheme Fund as at 30 June, 2020, 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 Public Finance Management Act, 2012.

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

##### **1. Non-Performing Loans**

The statement of financial position reflects mortgage interest receivable of Kshs.10,267,863 and long-term receivables from exchange transactions (mortgage recoverable) of Kshs.2,677,058,237. However, a review of loans records revealed that loans totalling Kshs.111,087,255 due from six (6) individuals were not being serviced and had accumulated arrears amounting to Kshs.8,040,701 as at 30 June, 2020. No evidence of measures taken by Management to recover the loans was provided for audit and no provision for doubtful debts has been made against the receivables.

Consequently, the recoverability of loans amounting to Kshs.111,087,255 included in the long-term receivables balance of Kshs.2,677,058,237 and of mortgage interest receivable of Kshs.10,267,863 could not be confirmed.

## **2. Overstated Long-Term Receivables**

The statement of financial position reflects an amount of Kshs.2,677,058,237 in respect of long-term receivables from exchange transactions. However, the supporting schedule provided for audit reflected long-term receivables amounting to Kshs.2,508,421,496 as at 30 June, 2020 resulting to an unexplained difference of Kshs.168,636,741.

In the circumstances, the accuracy of the reported balance of Kshs.2,677,058,237 for long-term receivables could not be confirmed.

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

### **Other Matter**

### **Budget Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,810,029,774 and Kshs.873,465,318 respectively resulting to an under-funding of Kshs.936,564,456 or 52% of the budget. Similarly, the Fund spent a total of Kshs.514,684,136 against an approved budget of Kshs.1,808,380,000 resulting to an under-expenditure of Kshs.1,293,695,864 or 72% of the budget. No explanation was provided for the material differences.

## **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, I confirm that, nothing 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**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit so as to obtain assurance as to 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 so as to obtain assurance as to whether effective processes and systems of internal control, risk management and overall governance was maintained in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain 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 Fund monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
Nancy Gathungu  
AUDITOR-GENERAL

**Nairobi**

**30 April, 2021**

**XI. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED  
 30 JUNE 2020**

|                                      | Note | 2019-2020         | 2018-2019         |
|--------------------------------------|------|-------------------|-------------------|
|                                      |      | Kshs              | Kshs              |
| Finance income -external investments | 5    | 75,878,753        | 71,463,170        |
| <b>Total revenue</b>                 |      | <b>75,878,753</b> | <b>71,463,170</b> |
| General expenses                     | 6    | 2,157,156         | 1,790,352         |
| Depreciation                         | 7    | 0                 | 133,600           |
| <b>Total expenses</b>                |      | <b>2,157,156</b>  | <b>1,923,952</b>  |
| Surplus before tax                   |      | <b>73,721,597</b> | <b>69,539,218</b> |
| Surplus for the period               |      | <b>73,721,597</b> | <b>69,539,218</b> |

The notes set out on pages 25 to 41 forms an integral part of the Financial Statements.

The financial statements were approved and signed on behalf of the Scheme management committee by:

Charles M. Hinga, CBS

Simon Odhiambo Opondo

CPA Fredrick Karuen

Principal Secretary/

Ag. Director/CSHSF

Accountant/CSHSF

Officer Administering the Fund

ICPAK, Member 7660

State Department of Housing &

Urban Development

Signature 

Signature 

Signature 

Date.....30-09-20

Date...30/09/20.....

Date...30-09-20.....

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 For the Year ended June 30, 2020

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

|  | Note | 2019-2020            | 2018-2019            |
|--|------|----------------------|----------------------|
|  |      | Kshs                 | Kshs                 |
| <b>Assets</b>                                    |      |                      |                      |
| <b>Current assets</b>                            |      |                      |                      |
| Cash and cash equivalents                        | 8    | 655,216,152          | 860,041,774          |
| Mortgage interest Receivable                     | 9A   | 10,267,863           | 13,471,477           |
| <b>Total Current Assets</b>                      |      | <b>665,484,015</b>   | <b>873,513,251</b>   |
| <b>Non- current assets</b>                       |      |                      |                      |
| Long-term receivables from exchange transactions | 9B   | 2,674,696,127        | 2,392,945,293        |
| Property plant and equipment                     | 10   | -                    | -                    |
| <b>Total Non-Current Assets</b>                  |      | <b>2,674,696,127</b> | <b>2,392,945,293</b> |
| <b>Net Assets</b>                                |      | <b>3,340,180,141</b> | <b>3,266,458,544</b> |
| <b>Capital Reserves</b>                          |      |                      |                      |
| Government Contribution                          |      |                      |                      |
| (capital injection)                              |      | 3,000,000,000        | 3,000,000,000        |
| Surplus for the year                             |      | 73,721,597           | 69,539,218           |
| Accumulated surplus (capital reserves)           |      | 266,458,544          | 196,919,326          |
| <b>Total net assets and liabilities</b>          |      | <b>3,340,180,141</b> | <b>3,266,458,544</b> |

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Urban Development

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Signature



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Date

30-09-20

Date

30/09/20

Date

30-09-20

State Officers House Mortgage Scheme Fund  
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**XII. STATEMENT OF CHANGES IN NET ASSETS  
 FOR THE YEAR ENDED 30 JUNE, 2020**

|  | <b>Revenue<br/>reserve</b> | <b>Capital<br/>Reserve</b> | <b>Total</b>         |
|--|----------------------------|----------------------------|----------------------|
|  | <b>Kshs</b>                | <b>Kshs</b>                | <b>Kshs</b>          |
| <b>Balance as at 30th June 2018</b>            | <b>196,919,326</b>         | <b>3,000,000,000</b>       | <b>3,196,919,326</b> |
| Surplus for the period                         | 69,539,218                 | -                          | 69,339,218           |
| <b>Balance as at 30 June 2019</b>              | <b>266,458,544</b>         | <b>3,000,000,000</b>       | <b>3,266,458,544</b> |
| Surplus for the period                         | 73,721,597                 | -                          | 73,721,597           |
| <b>Balance as at 30<sup>th</sup> June,2020</b> | <b>340,180,141</b>         | <b>3,000,000,000</b>       | <b>3,340,180,141</b> |

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| <b>XIII. STATEMENT OF CASHFLOW</b>                 |  |             |                      |                      |
|--|--|-------------|----------------------|----------------------|
|  |  |             | <b>2019-2020</b>     | <b>2018-2019</b>     |
|  |  | <b>Note</b> | <b>Kshs</b>          | <b>Kshs</b>          |
| <b>Cash flows from operating activities</b>        |  |             |                      |                      |
| Finance income                                     |  | 5           | 75,878,753           | 71,463,170           |
| Total revenue                                      |  |             | <b>75,878,753</b>    | <b>71,463,170</b>    |
| <b>Payments</b>                                    |  |             |                      |                      |
| Other payments                                     |  | 6           | (2,157,156)          | (1,790,352)          |
| Adjusted for                                       |  |             |                      |                      |
| Decrease in mortgage interest receivable           |  | 9A          | 3,203,614            | 3,852,056            |
| <b>cash flows from operating activities</b>        |  |             | <b>1,046,458</b>     | <b>2,061,704</b>     |
| <b>Net cash flows from operating activities</b>    |  |             | <b>76,925,211</b>    | <b>73,524,874</b>    |
| <b>Cash flows from investing activities</b>        |  |             |                      |                      |
| Mortgage Recovered S and L                         |  | 9C          | 218,249,166          | 178,274,573          |
| <b>Net cash flows used in investing activities</b> |  |             | <b>218,249,166</b>   | <b>178,274,573</b>   |
| <b>Cash flows from financing activities</b>        |  |             |                      |                      |
| Loans to Mortgage Scheme                           |  |             | (500,000,000)        | (300,000,000)        |
| <b>Net cash flows used in financing activities</b> |  |             | <b>(500,000,000)</b> | <b>(300,000,000)</b> |
| Net decrease in cash and cash equivalent           |  |             | <b>(204,825,623)</b> | <b>(48,200,553)</b>  |
| <b>Cash and cash equivalents at 1 July 2019</b>    |  | 8           | 860,041,775          | 908,242,328          |
| <b>Cash and cash equivalents at 30 June 2020</b>   |  | 8           | <b>655,216,152</b>   | <b>860,041,775</b>   |

Charles M. Hinga, CBS

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Principal Secretary/

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ICPAK, Member 7660

State Department of Housing & Urban Development

Signature 

Signature 

Signature 

Date... 30-09-20

Date... 30/09/20

Date... 30.09.20

State Officers House Mortgage Scheme Fund  
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**XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE, 2020**

|  | Original budget      | Adjustments | Final budget         | Actual on comparable basis | Performance difference |
|--|----------------------|-------------|----------------------|----------------------------|------------------------|
|  | 2019-2020            | 2019-2020   | 2019-2020            | 2019-2020                  | 2019-2020              |
| Revenue                                  | Kshs                 | Kshs        | Kshs                 | Kshs                       | Kshs                   |
| Balance in the Bank                      | 860,029,774          | -           | 860,029,774          | 155,216,152                | 704,813,622            |
| Funds on short call from the Bank        | -                    | -           | -                    | 500,000,000                | -500,000,000           |
| Expected collection From Mortgage & Rent | 150,000,000          | -           | 150,000,000          | 218,249,166                | -68,249,166            |
| Budgeted Allocation For the Year         | 800,000,000          | -           | 800,000,000          | -                          | 800,000,000            |
|  | <b>1,810,029,774</b> | <b>-</b>    | <b>1,810,029,774</b> | <b>873,465,318</b>         | <b>936,564,456</b>     |
| Boards and Committees                    | 2,500,000            | -           | 2,500,000            | 1,590,000                  | 910,000                |
| Conferences and Seminars                 | 1,000,000            | -           | 1,000,000            | 103,300                    | 896,700                |
| Official Entertainment                   | 200,000              | -           | 200,000              |                            | 200,000                |
| Travel & Sundry Items                    | 300,000              | -           | 300,000              | 14,940                     | 285,060                |
| Accommodation                            | 1,500,000            | -           | 1,500,000            | 243,600                    | 1,256,400              |
| Advertisement Awareness                  | 400,000              | -           | 400,000              |                            | 400,000                |

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|   |                      |   |                      |                    |                      |
|---|----------------------|---|----------------------|--------------------|----------------------|
| Publishing and Printing Services                                | 200,000              | - | 200,000              |                    | 200,000              |
| General Office Supplies   | 800,000              | - | 800,000              | -                  | 800,000              |
| Purchase of plant and equipment                                 | 500,000              | - | 500,000              | -                  | 500,000              |
| Telephone & Mobile services                                     | 100,000              | - | 100,000              | -                  | 100,000              |
| Courier and postal services                                     | 50,000               | - | 50,000               | -                  | 50,000               |
| Library Services  | 100,000              | - | 100,000              |                    | 100,000              |
| Training  | 500,000              |   | 500,000              | 202,787            | 297,213              |
| Supplies & Accessories for computer & Printers                  | 50,000               |   | 50,000               |                    | 50,000               |
| Maintenance of equipment  | 30,000               | - | 30,000               | -                  | 30,000               |
| Bank charges  | 50,000               | - | 50,000               | 2,529              | 47,471               |
| Membership Fees, Dues and subscriptions to professional Bodies. | 100,000              | - | 100,000              | -                  | 100,000              |
| <b>Total Expenditure Operations</b>                             | <b>8380,000</b>      |   | <b>8,380,000</b>     | <b>2,157,156</b>   | <b>6,222,844</b>     |
| <b>Development Budget</b>                                       |                      |   |                      |                    |                      |
| Loans to State Officers   | 1,800,000,000        | - | 1,800,000,000        | 512,526,980        | 1,287,473,020        |
| <b>Total expenditure Development</b>                            | <b>1,800,000,000</b> | - | <b>1,800,000,000</b> | <b>512,526,980</b> | <b>1,287,473,020</b> |

**XV. NOTES TO THE FINANCIAL STATEMENT**

**1. GENERAL INFORMATION**

State Officers Housing Mortgage Scheme Fund is established by and derives its authority and accountability from The Public Financial Management Act No 18 of 2012. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The objective and purpose for which the Fund was established is to provide a loan Scheme for purchase or development of property by the State officers.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the State Officers House Mortgage Scheme Fund’s accounting policies.

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

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

**ADOPTION OF NEW AND REVISED STANDARDS**

**i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2020**

| Standard  | Impact   |
|---|--|
| <b>IPSAS 40:</b><br>Public Sector<br>Combinations | <b>Applicable: 1<sup>st</sup> January 2020</b><br><br>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 are covered purely under Public Sector combinations as amalgamations. |

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

**3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)**

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020**

| Standard  | Effective date and impact:   |
|---|--|
| <p><b>IPSAS 41:</b><br/>Financial Instruments</p> | <p><b>Applicable: 1<sup>st</sup> January 2022:</b></p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul> |
| <p><b>IPSAS 42:</b><br/>Social Benefits</p>       | <p><b>Applicable: 1<sup>st</sup> January 2022</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social</p>  |

| Standard | Effective date and impact:   |
|----------|--|
|          | <p>benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the entity;</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p> |

**iii. Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2020.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Revenue recognition**

**i) Revenue from exchange transactions**

***Sale of goods***

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

***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.

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **b) Budget information**

The original budget for FY 2016-2017 was approved by the National Assembly on June, 2018. 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.

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.

### **c) Investment property**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **d) 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.

### **e) 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 considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**  
**Financial instruments (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 considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

***Impairment of financial assets***

The 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.

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

Financial Liabilities (continued)

***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 considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

***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.

***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.

**g) Nature and purpose of reserves**

The Entity creates and maintains reserves in terms of specific requirements. The government contribution capital relates to amounts received from National Treasury in the year.

**i) 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.

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **j) 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 authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

### **k) Comparative figures**

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

### **l) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

## **4 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. State all judgements, estimates and assumptions made: e.g

### **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**

State Officers House Mortgage Scheme Fund  
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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

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**NOTES TO THE FINANCIAL STATEMENTS**

**5. Finance income- external investments**

| Description   | 2019-2020         | 2018-2019         |
|---|-------------------|-------------------|
|   | KShs              | KShs              |
| Cash investments and fixed deposits                 | 8,569,863         |                   |
| Mortgage interest recoverable                       | 53,663,903        | 50,491,828        |
| Sale of forms (Loan/house)                          | 29,000            | 25,000            |
| Other income- interest on credit balance            | 13,615,987        | 20,946,342        |
| <b>Total financial income- external investments</b> | <b>75,878,753</b> | <b>71,463,170</b> |

**6. General expenses**

| Description                   | 2019-2020        | 2018-2019        |
|-------------------------------|------------------|------------------|
|                               | KShs             | KShs             |
| Board and committees          | 1,590,000        | 255,000          |
| Accommodation                 | 243,600          | 946,979          |
| Conferences                   | 103,300          | 255,000          |
| Transport operating expenses  | 14,940           | 175,225          |
| Training expenses             | 202,787          | 151,500          |
| Bank charges                  | 2,529            | 6,648            |
| <b>Total general expenses</b> | <b>2,157,156</b> | <b>1,790,352</b> |

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

**7. Depreciation**

| Description               | 2019-2020 | 2018-2019      |
|---------------------------|-----------|----------------|
|                           | KShs      | KShs           |
| Depreciation              | 0         | 133,600        |
| <b>Total depreciation</b> | <b>0</b>  | <b>133,600</b> |

**8. Cash and cash equivalents**

| Description                            | 2019-2020          | 2018-2019          |
|--|--------------------|--------------------|
|  | KShs               | KShs               |
| Bank                                   | 655,216,152        | 860,041,775        |
| <b>Total cash and cash equivalents</b> | <b>655,216,152</b> | <b>860,041,775</b> |

**(b) Detailed analysis of the Cash and cash equivalents**

| Financial institution                  |            | 2019-2020          | 2018-2019          |
|--|------------|--------------------|--------------------|
|  |            | KShs               | KShs               |
| Kenya Commercial Bank                  | 1170913962 | 155,216,152        | 860,041,775        |
| On Call Deposit KCB                    |            | 500,000,000        | -                  |
| <b>Total cash and cash equivalents</b> |            | <b>655,216,152</b> | <b>860,041,775</b> |

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

**9A. Receivables from exchange transactions**

| Description   | 2019-2020         | 2018-2019         |
|---|-------------------|-------------------|
|   | KShs              | KShs              |
| Current portion of long-term receivables from exchange transactions | 10,267,863        | 13,471,477        |
| <b>Total current receivables</b>                                    | <b>10,267,863</b> | <b>13,471,477</b> |

**B. Receivables from exchange transactions**

| Description   | 2019-2020            | 2018-2019            |
|---|----------------------|----------------------|
|   | KShs                 | KShs                 |
| Long term receivables from exchange transactions              | 2,674,696,127        | 2,392,945,293        |
| <b>Total Long-term receivables from exchange transactions</b> | <b>2,674,696,127</b> | <b>2,392,945,293</b> |

**C. Mortgage Recoverable S&L**

| Description                               | 2019-2020          | 2018-2019          |
|---|--------------------|--------------------|
|   | KShs               | KShs               |
| Mortgage Recovered S&L                    | 218,249,166        | 178,274,573        |
| <b>Total Mortgage Recoverable S&amp;L</b> | <b>218,249,166</b> | <b>178,274,573</b> |

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

**9. Property, plant and equipment**

| Description                   | Computer & other equipment | Total          |
|-------------------------------|----------------------------|----------------|
|                               | KShs                       | KShs           |
| <b>Cost</b>                   |                            |                |
| 1 <sup>st</sup> July 2019     | 400,000                    | 400,000        |
| At 30 <sup>th</sup> June 2020 | 400,000                    | 400,000        |
| <b>Depreciation</b>           |                            |                |
| 1 <sup>st</sup> July 2020     | 400,000                    | 266,400        |
| Depreciation in the year      | 0                          | 133,600        |
| At 30 <sup>th</sup> June 2020 | 400,000                    | 400,000        |
| <b>Net Book values</b>        |                            |                |
| <b>1st July 2020</b>          | <b>0</b>                   | <b>266,400</b> |
| <b>At 30th June 2020</b>      | <b>-</b>                   | <b>-</b>       |

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

**11. Financial Risk Management**

The entity's activities expose it to a variety of financial risks including credit and liquidity risks. The funds overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The entity 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 entity's financial risk management objectives and policies are detailed below:

**(i) Credit risk**

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

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 regulations. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the entity's management based on prior experience and their assessment of the current economic environment.

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

|  | <b>Total amount</b><br>Kshs | <b>Fully performing</b><br>Kshs |
|--|-----------------------------|---------------------------------|
| <b>At 30 June 2020</b>                 |                             |                                 |
| Receivables from exchange transactions | 10,267,863                  | 10,267,863                      |
| Bank balances                          | 655,216,152                 | 655,216,152                     |
| <b>Total</b>                           | <b>665,484,015</b>          | <b>665,484,015</b>              |
| <b>At 30 June 2019</b>                 |                             |                                 |
| Bank balances                          | 860,041,775                 | 860,041,775                     |
| <b>Total</b>                           | <b>860,041,775</b>          | <b>860,041,775</b>              |

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### FINANCIAL RISK MANAGEMENT (Continued)

#### (i) Credit risk (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 fund has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The scheme's committee sets the funds credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

#### (ii) 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 company'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.

##### a) Interest rate risk

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 company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company'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.

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

**FINANCIAL RISK MANAGEMENT (Continued)**

Market risk - Interest rate risk (continued)

*Sensitivity analysis*

The entity 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 69,539,218: (2018: Kshs 99,291,588). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs 3,476,961 (2018: 1,985,832).

**Capital Risk Management**

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

|   | 2019-2020            | 2018-2019            |
|---|----------------------|----------------------|
|   | Kshs                 | Kshs                 |
| Retained earnings                           | 73,721,597           | 69,539,218           |
| Capital reserve                             | 3,266,458,544        | 3,196,919,326        |
| <b>Total funds</b>                          | <b>3,340,180,141</b> | <b>3,266,458,545</b> |
| Total borrowings                            |                      |                      |
| Less: cash and bank balances                | 657,578,261          | 860,041,775          |
| Net debt/(excess cash and cash equivalents) | 2,684,963,990        | 2,475,567,538        |
| <b>Gearing</b>                              | <b>80%</b>           | <b>74%</b>           |