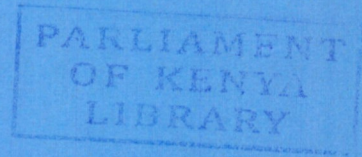



REPORT

OF

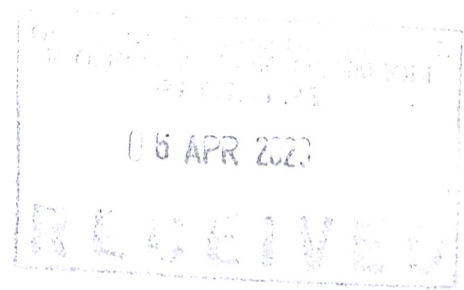


| | |
|--|-----------------------|
|  THE NATIONAL ASSEMBLY P.O. BOX 59113 NAIROBI K.E. | |
| THE AUDITOR-GENERAL | |
| DATE: 06 JUL 2023 Thursday | |
| TABLED BY: | Hon. Samuel Njiru, MP |
| CLERK AT THE TABLE: | lempelle |

ON

**AGRICULTURE AND FOOD AUTHORITY
(AFA) CAR LOAN & MORTGAGE FUND**

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



AFA CAR LOAN/ MORTGAGE FUND/SCHEME

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2022**

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

Contents

- 1. Key Entity Information and Management..... ii
- 2. The Board of Trustees/ Fund Administration Committee..... vi
- 3. Management Team..... viii
- 4. Report of the Fund Manager/ Administrator xi
- 5. Statement of Performance Against Predetermined Objectives xii
- 6. Report of The Trustees/ Fund Administration Committee xiii
- 7. Statement Of Management’s Responsibilities xv
- 8. Report Of The Independent Auditor xxi
- 9. Statement of Financial Performance for The Year Ended 30th June 2022. 1
- 10. Statement of Financial Position as at 30th June 2022..... 2
- 11. Statement of Changes in Net Assets for The Year Ended 30th June 2022 3
- 12. Statement of Cash Flows for The Year Ended 30th June 2022..... 4
- 13. Statement of Comparison of Budget and Actual Amounts for The Year Ended 30th June 2022 5
- 14. Notes to the Financial Statements 6

1. Key Entity Information and Management

a) Background information

The Agriculture and Food Authority is a state Corporation under the Ministry of Agriculture, Fisheries, Livestock and Cooperatives which was established under the AFA Act of 2013 and operationalized following the gazettelement of the Crops Act 2013, effective 1st August, 2014 and merged eight Agricultural Regulatory Boards.

Each of these Boards had operated in their own unique styles before the merger and it quickly emerged that some of them had superior staff benefits, making it imperative that these benefits be harmonized so that all staff could access them.

The operationalization of the common Mortgage and Car Loan Schemes for the Agriculture and Food Authority was made relatively easy by the SRC Circular No. SRC/ADM/CIR/1/13/VOL.III/ (128) dated 17th December, 2014 which gave guidance to all government institutions on the approval and implementation of the government Car Loan and Mortgage Schemes for State Officers and other Public Officers in Government. This is in line with the SRC mandate in Article 30(5b) of the Constitution of Kenya that aims at attracting and retaining requisite skills in the Public Service. It was envisaged that such benefits will enable the Public Service to effectively compete with the Private Sector attracting and retaining superior talents in the labour market.

This, together with the rolling out the Big Four Agenda for the 2018-2022 planning period, with specific reference to the Affordable Housing pillar, formed the basis upon which the Agriculture and Food Authority instituted the organizational Mortgage and Car Loan policy, building on already existing schemes which were being run by two of the former institutions, i.e the Sugar Board of Kenya and the Tea Board of Kenya. The Authority therefore re-negotiated existing Memoranda of Understanding for the Mortgage Scheme previously run by the Sugar Board through the Kenya Commercial Bank, and the Car Loan Scheme previously run by the Tea Board of Kenya, to include all staff of the Authority.

b) Principal Activities

The Fund's principal activity is to offer low interest loan facilities to members of the Authority to purchase land or houses, construct houses and purchase of cars.

The main objective in instituting the schemes is to ensure that they help in attracting and retaining competent and professional staff by using decision making frameworks that promote equity and professionalism and adherence to professional etiquette and public expectation of excellence in service delivery. The Authority aims to achieve this objective through various guiding principles including:

- Competitiveness of Benefits in the Authority
- Transparency and fairness in the disbursement of the funds
- Alignment of the Schemes to National Development goals

The Staff Mortgage and Car Loan Schemes are administered by independent banking institutions (KCB and NBK respectively) through Memoranda of Understanding between these Institutions and the Authority. The Authority however, has put in place a Committee that manages the internal processes and liaises with the Banking Institutions to ensure smooth disbursement of the funds to staff who qualify for the loans.

The committee to the fund is responsible for the day-to-day operations.

c) Board of Trustees/Fund Administration Committee

The Authority does not have a Board of Trustees running the Mortgage and Car Loan Schemes as of now. The Authority has a Committee in place to manage the internal processes before submitting the applications to the banks for further processing.

The Committee is comprised of the following:

| Ref | Position | Name |
|------------|----------------------------------|---|
| 1 | Chairperson | Kibwana Mataka |
| 2 | Other trustees/Committee Members | Joseph W. Muigai, Peter Macharia and John Kariuki |
| 3 | Fund Manager/ Administrator | Mortgage – KCB Car Loan - NBK |

The Authority is in the process of formalizing the governance structure of the schemes to conform with the requirements.

d) Key Management

| Ref | Position | Name |
|------------|-----------------------------|---|
| 1. | Management Committee | Kibwana Mataka, Joseph W. Muigai, Peter Macharia and John Kariuki |
| 1 | Fund Manager/ Administrator | KCB/NBK |
| 2 | Fund Accountant | KCB/NBK |
| | Other (<i>specify</i>) | |

e) Fiduciary Oversight Arrangements

The Schemes are managed by the Management Committee and administered by KCB for the Mortgage Scheme and NBK for the Car Loan Scheme

In previous financial years, the scheme accounts have been amalgamated with the Agriculture and Food Authority's Financial Statements, and duly audited by the office of the Auditor General.

f) Registered Offices – Currently hosted by the Agriculture and Food Authority

Agriculture and Food Authority
Tea House
P.O. Box 37962– 00100
Naivasha Road
Nairobi, KENYA

g) Fund Contacts

Telephone: (254) 0727246874
E-mail: kmataka@afa.go.ke

h) Fund Bankers

1. Mortgage Scheme – Kenya Commercial Bank
2. Car Loan Scheme – National Bank of Kenya




i) Independent Auditors

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

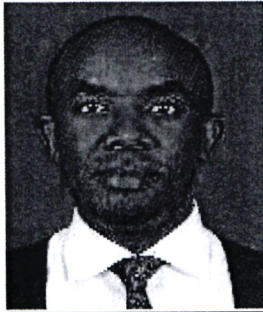
j) Principal Legal Adviser

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

2. The Board of Trustees/ Fund Administration Committee

| Name | Details of qualifications and experience |
|--|---|
| <p>Kibwana K. Mataka</p>  <p>D.O.B – 6/7/1971</p> | <ul style="list-style-type: none"> • Masters in Business Administration, Strategic Management • Post graduate diploma in Human Resource Management • Bachelor of Arts, Geography and Government • Certified Human Resource Professional and CPS part I • Member of Institute of Human Resource Management and Kenya Institute of Management • |
| <p>Joseph W. Muigai</p>  <p>D.O.B – 20/4/1965</p> | <ul style="list-style-type: none"> • Master of Business Administration, Finance (UoN); • Bachelor of Commerce, Accounting (UoN) • Certified Public Accountant of Kenya, CPA(K) • Membership: Institute of Certified Public Accountants of Kenya, ICPAK; M/No. 5605 |
| <p>Peter Macharia</p>  <p>D.O.B – 25/9/1967</p> | <ul style="list-style-type: none"> • Ongoing Master of Business Administration • Bachelor of Commerce, Accounting • Certified Public Accountant of Kenya, CPA(K) • Membership: Institute of Certified Public Accountants of Kenya |

John Kariuki



- Ongoing Master of Business Administration
- Bachelor of Commerce, Accounting
- Certified Public Accountant of Kenya, CPA(K)
- Membership: Institute of Certified Public Accountants of Kenya

D.O.B – 3/10/1979

Fund administrator/ Secretary to the Board

Kenya Commercial BANK
National Bank of Kenya

3. Management Team

The Schemes are being managed the Management Committee and administered by KCB for the Mortgage Scheme and NBK for the Car Loan Scheme.

Chairman's Report

The Scheme was formerly instituted in the year 2017. In order to effectively run the scheme, the Authority developed the Mortgage and Car Loan Policy which was the framework upon which the scheme was implemented.

The operational framework clearly outlines both the Management and Governance Structures internally, so that all staff know who to consult when it comes to application and approvals of the loans within the organization.

The Schemes are outsourced and are therefore not administered from within. Both banks (KCB for Mortgage Loans and NBK for Car Loans) have appointed contact persons who act as account managers and to whom the staff can reach out to for further assistance once they get internal approval.

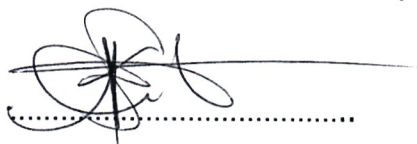
Both Schemes are cash based, which means that the Authority has deposited money with the banks for ease of administering the funds and disbursement to staff. In the Financial Year 2021/2022, the Mortgage Scheme Fund is Kshs. 734.6 Million compared to Kshs. 773.03 in the FY 2020/2021. This reduction was as a result of the car loan fund transferred to the Tea Board of Kenya fund.

During the Financial year 2021/2022 seven (7) employees benefited from the Mortgage scheme amounting to loan disbursements of Kshs. 51.15 million. None of the staff member accessed the car loan scheme in that financial year.

Challenges being Experienced

It will be quickly observed from the above information that the Mortgage Scheme is doing relatively better than the Car Loan Scheme and this can be attributed to the fact that many people put home ownership as a priority. There are also many other loan options apart from the ones the organization has negotiated with the two banks and some members of staff have opted to use other loaning agencies, whether banks or Saccos to secure loans.

Agriculture and Food Authority has a staff strength of about 350 staff who are eligible for the home ownership and car loans. As mentioned above only 41 out of the 350 have actually accessed the mortgage loans giving a mere 11.7% access rate to mortgage financing and 1.4% access rate for car loans. This dismal performance may be attributed to insufficient ability of staff as a result of prior commitments having accessed other financing options, but could also be due to the stringent requirements by the banking institutions that should be in place before one can access the loans.



Name: Kibwana Mataka

Chairman of the Fund

4. Report of the Fund Manager/ Administrator

The Schemes are outsourced and are being managed and administered by KCB for the Mortgage Scheme and NBK for the Car Loan Scheme.

The Authority is in the process of formalizing the governance structure of the schemes to conform with the requirements.

5. Statement of Performance Against Predetermined Objectives

Introduction

The Salaries and Remuneration Commission vide Circular No. SRC/ADM/1/13 VOL.III/(128) dated 17th December, 2014, set out guidelines on the approved Car Loan and Mortgage schemes for State Officer and other Public Officers of the Government of Kenya.

In the circular, the Commission gave specific guidelines on:

- The Scope and Eligibility
- Commencement date – which was 1st January, 2015
- Implementation and Administration of the Benefits
- Financing
- Thresholds per each category of staff
- Interest charged
- Duration and termination of the schemes in terms of repayment periods once dispersed to staff i.e. 20 years for Mortgages and 5 years for car loans.

This then formed the basis upon which the Agriculture and Food Authority developed its mortgage and car loan schemes, which were outsourced through memoranda of understanding with the Kenya Commercial Bank (Mortgage) and the National Bank of Kenya (Car Loan).

Performance of the Schemes

During the Financial year 2021/2022 seven (7) employees benefited from the Mortgage scheme amounting to loan disbursements of Kshs. 51.15 million. No member of staff accessed the car loan scheme in that financial year. However, from inception in 2017, 41 staff have benefited from the Mortgage Scheme while 5 staff have benefitted from the Car Loan Scheme.

NOTE: The Mortgage and Car Loan Schemes are not listed as strategic initiatives in the Authority's Strategic Plan 2023-2027 or as targets in the Authority's Performance Contract, but have been incorporated as part of staff benefits in the Authority's Human Resource and Procedures Manual

6. Report of The Trustees/ Fund Administration Committee

The Trustees/Fund Administration Committee submit their report together and annual financial statements for the year ended June 30, 2022, which show the state of the Fund affairs.

Principal activities

The principal activities of the fund is to offer affordable mortgage and car loan for the staff.

Objectives of the Mortgage and Car Loan Schemes

The objective of the Mortgage and Car Loan Schemes is to enable the Authority to attract, engage and retain competent talents in the labour market that will help the Authority achieve its mandate of developing, promoting and regulating scheduled crops. The primary objective is to provide staff with affordable house loans to enable them acquire their own homes, in line with the Big Four Agenda Pillar on Affordable Housing and also to enable them purchase motor vehicles at reasonable rates for those who qualify also at the thresholds as prescribed by the SRC

Performance

The results of the Agriculture and Food Authority fund for the year ended June 30, 2022 are set out on page 1 and 5 herein.

During the year under review, the fund received a total revenue of Kshs. 4.8 million from interest income from the loans

The fund has a total asset of Kshs. 780.98 million with no liabilities thus giving a net asset of Kshs 780.98 million


Trustees

The members of the Administration Committee who served during the year are shown on page vii above

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 Committee


.....

Chair of the Board/ Fund Administration Committee

7. Corporate Governance Statement

The scheme is under the Agriculture and Food Authority (AFA). The Corporate Governance defines the process and structure used to direct and manage the mandate of the Authority with the aim of ensuring and enhancing efficiency and accountability of the public resources to increase stakeholders' long-term value taking into account their interest and expectations. The Authority adheres and complies with Mwongozo, the Code of Governance for State Corporations, and all relevant legislations including the provisions of the Constitution of Kenya, 2010, The AFA Act 2013 and the State Corporation Act.

The Board of Directors are independent and adhere to the highest standards of corporate governance and ethics as well as ensuring that compliance with all applicable laws under the Authority. The Board of Directors are committed to ensuring that the Authority's mandate, roles and responsibilities to its stakeholders are fulfilled through corporate governance best practices. However, the Board of Directors for the Agriculture and Food Authority known as the Interim Management Committee was appointed by the Cabinet Secretary for Agriculture, Livestock and Fisheries on 7th November 2016 vide gazette Notice No. 9637 for a period of one year. The term of the Interim Management Committee expired in November 2017. Since the last appointment, the Authority has not had a Board of Directors in place to drive its Mandate. The Management of the Authority has been performing and handling Board of Directors related matters in consultation with the Parent Ministry of Agriculture, Livestock, Fisheries and Cooperatives.

The management of AFA has put in place policies, processes, systems and procedures to guide the operations of the Authority and the scheme, which are frequently reviewed and updated to embrace the change in the operating environment and ensure best practices in all sectors. In this respect, Management confirms that the Authority complies with all relevant legislations and Government guidelines and directives and Mwongozo, the Code of Governance for State Corporations. In conclusion, Management recognizes the fundamental role of corporate governance in enhancing the culture and performance of the Authority and the scheme, that high standards of corporate governance are a key contributor to the long term success of the scheme.

8. Management Discussion and Analysis

The results of the Agriculture and Food Authority Mortgage and Car Loan Fund for the year ended June 30, 2022 are set out on page 1 and 4 herein.

During the year under review, the Fund received was added by Kshs 60 million and a transfer of Kshs 52 million was made to the Tea Board of Kenya necessitated by the enactment of the Tea Board of Kenya. TBK Act 2020 whose regulation stipulates the assets and liability of TBK. The fund earned interest of Kshs 4.8 million in the financial year ended 30th June 2022.

The Authority has a total asset of revolving fund of Kshs 759.6 million with accumulated surplus of Kshs 21.3 million giving a total fund of Kshs 780.98 as at the end of 30th June 2022

a) Entity's Key Projects or Investments Decision Implemented or Ongoing.

The Authority did not have a project or investment during the financial year

b) Fund's compliance with Statutory Requirements

Agriculture and Food Authority is regulated by various laws and regulations; AFA is committed to ensuring that we have complied with all the laws and regulations governing government entities.

Financial reporting – Section 84 of the PFM Act (2012) The administrator of a public fund established by the Constitution, an Act of Parliament or Entity legislation shall prepare financial statements for the fund for each financial year in a form prescribed by the Accounting Standards Board. Not later than three months after the end of each financial year, the administrator of a national public fund shall submit the financial statements prepared under this section to the Auditor -General. The administrator shall submit a copy of the report to the Cabinet Secretary responsible for the fund.

Agriculture and Food Authority Mortgage Scheme and Car Loan Fund complied with these requirements and submitted the reports within the stipulated timelines

c) Major Risks Facing the Fund, Material Arrears in Statutory and Other Financial Obligations

The Management has highlights major risks facing the fund as follows: -

- Inconsistencies in the financial statement balances and bank balances due to the accounting procedures for the fund management service provider
- Dormant standing committee due to exit of members and delays in appointment of new members
- Lack of a fund accountant to document the financial transactions and prepare the books for auditing
- Difficulty in developing budget expected to be utilized in the year especially determining staff uptake of the fund
- Exposure to credit and liquidity risks where staff exit the Authority or due to lack of replenishment of the fund by the sponsor
- Unpredictability of changes in the business environment due to change in Government policy and guidelines that govern sponsored schemes

9. Environmental and Sustainability Reporting

During the period under review, the Fund did not undertake any Environmental and Sustainability actions. However, in the subsequent years, the fund plans to undertake staff capacity building to elicit interest and increase uptake of the fund by the staff of the Authority

10. Statement of Management's Responsibilities

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

The Administrator of the Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2022. This responsibility includes:

- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period,
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the fund,
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud,
- (iv) Safeguarding the assets of the fund;
- (v) Selecting and applying appropriate accounting policies, and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Administrator of the Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2022, and of the Fund's financial position as at that date.

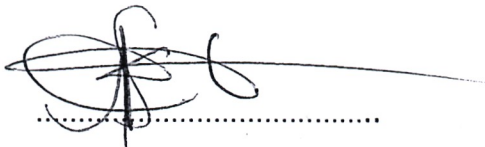
The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

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

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

Approval of the financial statements

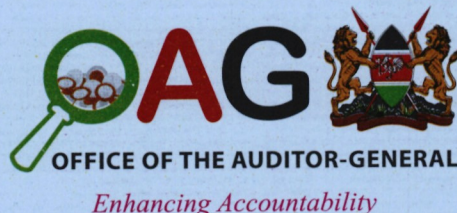
The Fund's financial statements were approved by the Board on 29th September 2022 and signed on its behalf by:



Name: Kibwana Mataka
Chairman of the Fund

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON AGRICULTURE AND FOOD AUTHORITY (AFA) CAR LOAN & MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

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

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Agriculture and Food Authority (AFA) Car Loan & Mortgage Fund set out on pages 1 to 20, which comprise of the

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

In my opinion, 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 Agriculture and Food Authority (AFA) Car Loan & Mortgage Fund as at 30 June, 2022, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Prior Year Adjustments

The statement of changes in net assets reflects prior year adjustments amount of Kshs.4,819,229 which Management has explained relates to overstated interest income in the prior year. However, no evidence was provided to support the overstatement that necessitated the adjustments.

In the circumstances, the accuracy and completeness of the prior year adjustments amount of Kshs.4,819,229 could be confirmed.

2. Unsupported Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents balance totalling to Kshs.431,352,188 which as disclosed in Note 8 to the financial statements comprises of Kshs.301,471,327 in respect of mortgage account balance, Kshs.17,854,223 relating to personal loans and Kshs.112,026,638 in respect of car loan account. However, the balances were not supported with cashbooks. In addition, the car loan account balance was not supported with a bank reconciliation statement for the month of June 2022 and the certificate of bank balance reflects a balance of Kshs.50,000,000.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.431,352,188 as at 30 June, 2022 could not be confirmed.

3. Inaccuracies in the Statement of Cashflows

The statement of cashflows reflects cash and cash equivalents as at 1 July, 2021 of Kshs.538,844,404. Review of records revealed that the Agriculture and Food Authority prior year audited financial statements reflected a staff mortgage fund balance of Kshs.773,035,822 which is reflected as the opening balance of the mortgage and car loan fund in the Fund's statement of changes in net assets. The balance comprises of cash and cash equivalents and receivables from staff loan balance of Kshs.383,672,548 and

Kshs.389,363,274 respectively. However, the amount of Kshs.538,844,404 reflected in the statement of cashflows is at variance with opening cash and cash equivalents balance of Kshs.383,672,548 resulting to unreconciled variance of Kshs.155,171,856.

Further, the cashflow statement excluded loan recoveries made during the year amounting to Kshs.64,665,923.

In the circumstances, the accuracy of the statement of cash flows could not be confirmed.

4. Revenue from Exchange Transactions

The statement of financial performance reflects interest income from staff mortgage and car loan of Kshs.4,844,199 and as disclosed in Note 6 to the financial statements. Included in this balance is an amount of Kshs.899,791 in respect of interest on personal loans which is at variance with the balances reflected in the certificates of balances for the personal loans account totalling to Kshs.5,143,388. The resultant difference of Kshs.4,243,597 has not been explained.

Further, the amount of Kshs.5,143,388 has been reflected as a receivable in the statement of financial position instead of being reflected as revenue for the year. Although Management has explained that the personal loan accounts and car loan Funds are not revolving funds and that the interest income relates to previous years, no evidence was provided to confirm that the income was recognized in the previous years.

In the circumstances, the accuracy and completeness of interest on personal loans of Kshs.899,791 for the year ended 30 June, 2022 could not be confirmed.

6. Unsupported Receivables from Exchange Transactions

The statement of financial position reflects long term receivables balance of Kshs.344,492,189 and as disclosed in Note 10 to the financial statements. Included in the balance is car loan receivables amount of Kshs.4,810,000 which further includes an amount of Kshs.1,735,613 described as receivables from bank whose details were not provided.

In addition, the balance of Kshs.344,492,189 includes an amount of Kshs.177,145,777 in respect of receivable from the personal loans account. However, no approval from The National Treasury, approved policy and guiding regulations were provided for audit review and the Authority may be operating the personal loans scheme irregularly.

In the circumstances, the accuracy, completeness and validity of the current receivables from exchange transactions of Kshs.4,810,000 and long-term receivables from personal loans of Kshs.177,145,777 could not be confirmed.

7. Unsupported Transfer to Tea Board of Kenya

The statements of changes in net assets reflects a transfer out from the staff mortgage and car loan fund to the now autonomous Tea Board of Kenya of Kshs.52,071,963. Management explained that the amount relates to personal loans component owed by

staff of Tea Board of Kenya. However, the total loan portfolio for the staff of Tea Board of Kenya amounted to Kshs.211,101,152 as at 30 June, 2021 and the balance of Kshs.159,029,189 has not been transferred and is not reflected as a payable in the Authority's financial statements.

In the circumstances, the accuracy and completeness of the Fund's financial statements for the year ended 30 June, 2022 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Agriculture and Food Authority (AFA) Car Loan and Mortgage 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 review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, 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 to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance 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 overall governance were not effective.

Basis for Conclusion

Dormant Standing Committee

During the year, the Fund operated with a standing committee which did not conduct any meeting. This is contrary to the requirements by the Agriculture and Food Authority car loan and staff housing mortgage scheme policy. It is not clear how the total loans disbursed during the year amounting to Kshs.115,120,000 were approved and disbursed during the financial year under review.

In the circumstances, the internal controls and governance systems over the Fund were not effective.

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

Responsibilities of Management and Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls 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 controls 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 controls 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 controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


 CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

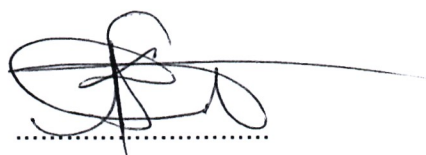
13 June, 2023

12. Statement of Financial Performance for The Year Ended 30th June 2022.

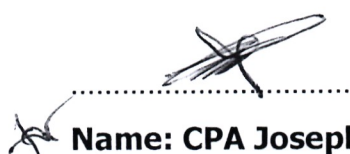
The notes set out on pages 5 to 18 form an integral part of these Financial Statements.

The financial statements were approved on 29th September 2022 by:

| Description | Note | 2021/22 |
|--|-------------|------------------|
| | | Kshs. |
| Revenue | | |
| Revenue from exchange transactions | | |
| Interest income from staff mortgage and car loan | 6 | 4,844,199 |
| Total revenue from exchange transactions | | 4,844,199 |
| | | |
| Expenses | | |
| | | |
| Bank charges | 7 | 1,065 |
| Total expenses | | 1,065 |
| Surplus/(deficit) before tax | | 4,843,134 |
| Surplus/Deficit after Tax | | 4,843,134 |



Name: Kibwana Mataka
Chairperson of the
Board/Fund



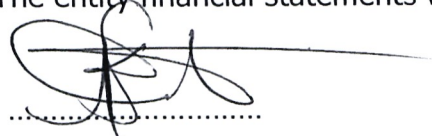
Name: CPA Joseph W. Muigai
ICPAK M/no 5605

13. Statement of Financial Position as at 30th June 2022

| Description | Note | 2021/22 Kshs. |
|---|------|--------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 8 | 431,352,188 |
| Receivables from exchange transactions | 9 | 5,143,388 |
| Total Current Assets | | 436,495,576 |
| Non-current assets | | |
| Long-term Receivables | 10 | 344,492,189 |
| | | 344,492,189 |
| Total assets | | 780,987,764 |
| Liabilities | | |
| Total Current Liabilities | | - |
| Total liabilities | | - |
| Net assets | | 780,987,764 |
| Revolving Fund | 11 | 776,144,630 |
| Accumulated surplus (<i>Reserves</i>) | 12 | 4,843,134 |
| Total net assets and liabilities | | 780,987,765 |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The net assets state a revolving fund, the National Bank of Kenya AFA Car Loan and Personal Loans are not revolving and the interest earned over the years is reported current assets as receivables from exchange transactions.

The entity financial statements were approved on 29th September 2022 and signed by:



Name: Kibwana Mataka
Chairperson of the
Board/Fund



Name: CPA Joseph W. Muigai
ICPAK M/no 5605

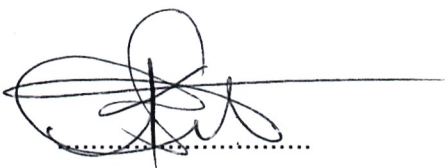
14. Statement of Changes in Net Assets for The Year Ended 30th June 2022

| Description | Mortgage and Car Loan Fund | Accumulated surplus | Total |
|----------------------------------|-----------------------------------|----------------------------|--------------------|
| Balance as at 1 July 2021 | 773,035,822 | - | 773,035,822 |
| Prior year Adjustments | (4,819,229) | | (4,819,229) |
| Surplus/(deficit) for the period | - | 4,843,134 | 4,843,134 |
| Funds received during the year | 60,000,000 | - | 60,000,000 |
| Transfer to TBK | (52,071,963) | | (52,071,963) |
| As at 30 June 2022 | 776,144,630 | 4,843,134 | 780,987,765 |

Accumulated Surplus – This is created from prior years surplus of the fund and is used to strengthen the liquid resources of the scheme.

Transfers of Ksh 52.071 million to TBK relates to the transfers of the Personal Loan Fund to the Tea Board of Kenya after the enactment of the TBK Act 2020 which necessitated the transfer of assets and liabilities.

An adjustment of Kshs 4.819 million relates to a restatement of the interest income which was overstated in the prior year of Kshs 3.497 million for the Mortgage Fund and Kshs 1.32 million for Car Loan Interest adjustment for TBK which is still a receivable from National Bank of Kenya as at the end 30th June 2022



Name: Kibwana Mataka
Chairperson of the Board/Fund

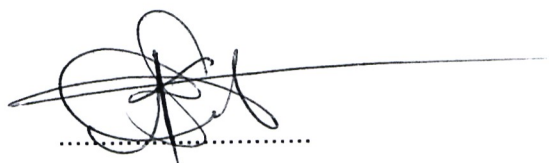


Name: CPA Joseph W. Muigai
ICPAK M/no 5605

15. Statement of Cash Flows for The Year Ended 30th June 2022

Transfers to TBK relates to the transfers of the cash and cash equivalent as at 30th June 2021 to the Tea Board of Kenya after the enactment of the TBK Act 2020 which necessitated the transfer of assets and liabilities

| Description | Note | 2021/22 Kshs. |
|---|------|----------------------|
| Cash flows from operating activities | | |
| Receipts | | |
| Interest income on mortgage and car loan | | 4,844,199 |
| Total receipts | | 4,844,199 |
| Payments | | |
| Bank charges | | 1,065 |
| Total payments | | 1,065 |
| Net cash flow from operating activities | | 4,843,134 |
| Cash flows from investing activities | | |
| Loans disbursement paid out | | (115,120,000) |
| Net cash flows used in investing activities | | (115,120,000) |
| Cash flows from financing activities | | |
| Transfer to TBK | | (52,071,963) |
| Investment to the Fund | | 60,000,000 |
| Net cash flows used in financing activities | | 7,928,037.00 |
| Net increase/(decrease) in cash and cash equivalents | | (102,348,829) |
| Cash and cash equivalents at 1 July | | 538,844,404 |
| Cash and cash equivalents at 30 June | | 436,495,576 |



Name: Kibwana Mataka
Chairperson of the Board/Fund

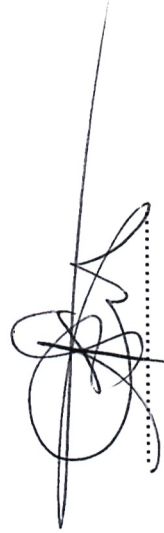


Name: CPA Joseph W. Muigai
ICPAK M/no 5605

16. Statement of Comparison of Budget and Actual Amounts for The Year Ended 30th June 2022

| Description | Original budget | Adjustments | Final budget | Actual on comparable basis | Performance difference | % of utilization |
|--|------------------|-------------|------------------|----------------------------|------------------------|------------------|
| | Kshs. A | Kshs. b | Kshs. C=(a+b) | Kshs. d | Kshs. e=(c-d) | F=d/c |
| Revenue | | | | | | |
| Interest from mortgage & car loan fund | 4,500,000 | - | 4,500,000 | 4,844,199 | 344,199 | 7.65% |
| Total Revenue | 4,500,000 | - | 4,500,000 | 4,844,199 | 344,199 | 7.65% |
| Expenses | | | | | | |
| Bank charges | 2,000 | - | 2,000 | 1,065 | 935 | 46.75% |
| Total Expenses | 2,000 | - | 2,000 | 1,065 | 935 | 46.75% |
| Surplus for the period | 4,498,000 | - | 4,498,000 | 4,843,134 | 343,264 | |

The budget of interest of Kshs 4.5 million for car loan and mortgage fund was budgeted in Agriculture and Food Authority budget under the investment income vote



Name: Kibwana Mataka

Chairperson of the Board/Fund



Name: CPA Joseph W. Muigai

ICPAK M/no 5605

17. Notes to the Financial Statements

1. General Information

The Agriculture and Food Authority is established by and derives its authority and accountability from Agriculture and Food Authority and Crops Act 2013. AFA is wholly owned by the Government of Kenya and is domiciled in Kenya. The Authority's principal activity is to develop, regulate and promote all scheduled crops as provided in the Crops Act 2013.

The scheme was established by the former Sugar Board of Kenya. The scheme was enhanced by AFA injecting funds in the FY 2018/2019.

2. Statement of Compliance and Basis of Preparation

The Scheme financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS)

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

The accounting policies adopted 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 re prepared on accrual basis.

3. Adoption of New and Revised Standards

i. New and amended standards and interpretations in issue effective in the year ended 30 June 2022

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

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

| Standard | Effective date and impact: |
|---|--|
| <p>IPSAS 41: Financial Instruments</p> | <p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting |

| | |
|--|---|
| | treatment for instruments held as part of the risk management strategy. |
| IPSAS 42: Social Benefits | <p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <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> |
| Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments | <p>Applicable: 1st January 2023:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> |

| | |
|--|---|
| <p>Other improvements to IPSAS</p> | <p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> • <i>IPSAS 39: Employee Benefits</i> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> • IPSAS 29: Financial instruments: Recognition and Measurement <p>Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.</p> |
| <p>IPSAS 43</p> | <p>Applicable 1st January 2025</p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> |
| <p>IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations</p> | <p>Applicable 1st January 2025</p> <p>The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> |

| | |
|--|--|
| | Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance. |
|--|--|

The stated standards will not have impact on the operations of the Agriculture and Food Authority Car loan/Mortgage fund

iii. **Early adoption of standards**

Agriculture and Food Authority Car loan/Mortgage fund did not early – adopt any new or amended standards in the year 2021/22.

4. Significant Accounting Policies

a. Revenue recognition

i) Revenue from non-exchange transactions

The scheme did not report on Revenue from non-exchange transactions

ii) Revenue from exchange transactions

Interest income

The scheme recognizes revenues from interest income on bank balances when the event occurs and the asset recognition criteria are met. Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income for each period.

b. Budget information

Agriculture and Food Authority Car loan/Mortgage fund has not done a budget for the fund.

c. Financial instruments

1) Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments; Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective

interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

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, with 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 fund 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 an 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)

2) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The 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.

d. Contingent liabilities

The fund does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

e. Contingent assets

The fund does not recognize a contingent asset but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the 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.

f. Nature and purpose of reserves

The fund creates and maintains reserves in terms of specific requirements. The fund accumulated surplus is used to strengthen the liquid resources of the Authority

g. 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.

h. 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.

i. Related parties

The fund 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/ Trustee, the Fund Managers, and Fund Accountant.

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.

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.

I. Events after the reporting period

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

m. Currency

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

5. 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.

a) Estimates and assumptions

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

b) Useful lives and residual values

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

- i) The condition of the asset is based on the assessment of experts employed by the Entity
- ii) The nature of the asset, its susceptibility and adaptability to changes in technology and processes

- iii) The nature of the processes in which the asset is deployed
- iv) Availability of funding to replace the asset
- v) Changes in the market in relation to the asset

Notes to the Financial Statements

6. Interest income from staff mortgage and car loan

| Description | 2021/22 |
|-------------------------------------|------------------|
| | Kshs. |
| Interest Income From Mortgage Loans | 3,802,514 |
| Interest Personal Loans | 899,781 |
| Interest Income From Car Loans | 141,905 |
| Total Interest Income | 4,844,199 |

7. Bank charges

| Description | 2021/22 |
|--------------|--------------|
| | Kshs. |
| Bank Charges | 1,065 |
| Total | 1,065 |

8. Cash and cash equivalents

| Description | 2021/22 |
|--|--------------------|
| | Kshs. |
| KCB Mortgage Account | 301,471,327 |
| NBK Personal Loans Account | 17,854,223 |
| NBK Car Loan Account | 112,026,638 |
| Total Cash and Cash Equivalents | 431,352,188 |

9. Receivables from exchange transactions

| Description | 2021/22 |
|---|------------------|
| | Kshs. |
| NBK Personal Loans Account | 5,143,388 |
| Total Receivables from exchange transactions | 5,143,388 |

10. Long Term Receivable

| Description | 2021/22 |
|---------------------------------------|--------------------|
| | Kshs. |
| KCB Staff Mortgage Account | 162,536,411 |
| NBK Personal Loans Account | 177,145,777 |
| NBK Car Loan Account | 4,810,000 |
| Total Non- Current Receivables | 344,492,189 |

11. Mortgage and Car Loan Revolving Fund

| Description | 2021/22 |
|---|--------------------|
| | Kshs. |
| Balance brought forward | 773,035,822 |
| Transfer out from Staff mortgage and car loan | (52,071,963) |
| Prior Year Adjustment | (4,819,229) |
| Transfer out from Staff mortgage and car loan | 60,000,000 |
| Total Receivables From Non-Exchange Transactions | 776,144,630 |

Transfers of Ksh 52.071 million to TBK relates to the transfers of the Personal Loan Fund to the Tea Board of Kenya after the enactment of the TBK Act 2020 which necessitated the transfer of assets and liabilities.

An adjustment of Kshs 4.819 million relates to a restatement of the interest income which was overstated in the prior year of Kshs 3.497 million for the Mortgage Fund and Kshs 1.32 million for Car Loan Interest adjustment for TBK which is still a receivable from National Bank of Kenya as at the end 30th June 2022

12. Reserves

| Description | 2021/22 |
|-------------------------|-------------------|
| | Kshs. |
| Balance brought forward | 18,993,072 |
| Surplus for the year | 4,843,134 |
| Total | 23,836,206 |

Other Disclosures

13. Financial risk management

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

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

a) Credit risk

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

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

APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Being the first year of preparation of the preparation of the AFA Car and Mortgage Fund there are no progress on follow up of audit recommendations.

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|---|--|----------------------------|--|---|
| N/A | N/A | N/A | N/A | N/A |