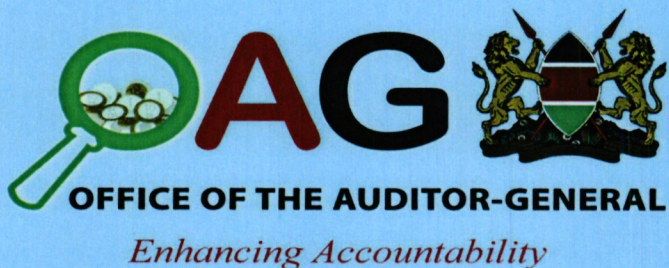


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**REPORT**

**OF**

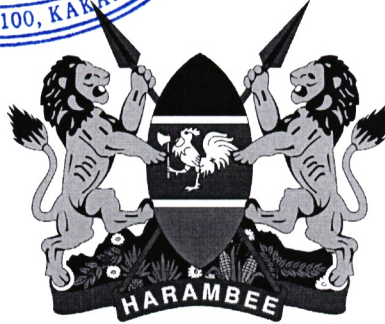
**THE AUDITOR-GENERAL**

**ON**

**BUSIA COUNTY CO-OPERATIVE  
ENTERPRISE DEVELOPMENT FUND**

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

	PAPEE
DATE	15-02-2022
TABLED BY	LEADER OF MAJORITY
COMMITTEE	-
CLERK AT THE TABLE	M. ADJI BODDU



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**BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

---

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

**BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND**  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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**BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND**  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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**1. KEY ENTITY INFORMATION AND MANAGEMENT**

**I. KEY ENTITY INFORMATION AND MANAGEMENT**

**a) Background information**

The Cooperative Enterprise Development Fund was established by the County Government of Busia through an Act of the County Assembly of Busia, THE COOPERATIVE ENTERPRISE DEVELOPMENT FUND ACT, 2014. The Fund started its operations in July 2014 after being launched by H.E the Governor on 13<sup>th</sup> June, 2014.

The mandate of the Fund as provided for in the Act is to provide affordable (low interest) loans to cooperative societies in Busia County, with a view to support them to scale up their lending activities, value addition, promote entrepreneurship and enhance production and productivity.

Specifically the Fund provides funds to:

- Support, revive and initiate cooperative institutions.
- Attract and facilitate investments in cooperatives that have linkages to micro, small and medium enterprises that benefit the youth.
- Attract and facilitate investments in cooperatives that have linkages to low income persons, community-based organisations, and women groups.
- Facilitate cooperatives to market their products and/or services in both domestic and international markets.

Fund operations are overseen by a committee (Board) comprising of eight members, four public officers and four non-public officers. The Chairman of the Fund Committee, by law must be a non-public officer.

The day to day administration of the Fund is done by Fund Unit headed by a Director (Fund Administrator), loan officers and an accountant.

**b) Principal activity of the Fund**

The Funds' principal activity is to provide funds to be used for granting low interest loans to cooperative institutions operating in Busia County with a view to scaling up their lending activities, value addition, promote entrepreneurship and enhance productivity.

**c). Fund Administration Committee**

<b>Ref</b>	<b>Name</b>	<b>Position</b>
1	Hellen A. Mukanda	Committee chairperson
2	Catherine T. Nagwalla	Member
3	Roselyne Pepela	Member
4	Oscar Eugene Odaba	Member (Committee secretary)

**BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND**  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

5	Vincent JumaOmbitsi	Member (Representative of Chief Officer Finance)
6	Nelson Kwamini	Member (Chief Officer Cooperatives)

**d). Key Management**

Ref	Name	Position
1	Oscar Eugene Odaba	Fund Administrator(Committee secretary)
2	Paul BarasaOundo	Fund Accountant

**e). Headquarters**

P.O. Box 353-50400  
Cooperative House  
Assembly Road  
Busia, KENYA

**f). Contacts**

Telephone (254) 733-342435  
Email: [coopfundbusia@gmail.com](mailto:coopfundbusia@gmail.com)  
Website: [www.busiacounty.go.ke](http://www.busiacounty.go.ke)

**g) Bankers**

Co-operative Bank of Kenya-Busia Branch  
P.O. Box 326-50400  
Busia, Kenya

**h). Independent Auditors**

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

**i) Principal Legal Advisor**

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

**BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND**  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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**2. BOARD/FUND CHAIRPERSON'S REPORT**

The Cooperative Enterprise Development Fund has been focused on improving the lives of the people of Busia County by giving them affordable loans to advance their social economic activities. Most of the beneficiaries have engaged in various productive activities such as value addition.

The fund unit is committed in ensuring that all loans advanced are recovered despite various challenges which include inadequate resources coupled with limited capacities of respective societies in governance.

The major challenges of the fund are: lack of Funding for the previous year though planned for, late disbursement from the County treasury, non-disbursement of full budgeted amount, sometimes no disbursement at all among other challenges.

The fund required an allocation or at least at least Ksh 100,000,000 for the initial five years as a one off disbursement to enable realisation of the core Fund objective. This would have enabled the Fund to plan well also invest in other profitable investments that would enable it to fund its administration and beneficiary training costs from its revenue only. It is my hope that in the coming financial years funding will be enhanced to make the Committee plan well for the sustainability of the Fund.

The Fund Committee acknowledges the support His Excellency the County Governor has shown in spearheading the development of the County and the people of Busia through making people access affordable loans through this Fund. The Committee also extends its appreciation to the office of the County Executive Committee Member for Trade Cooperatives and Industrialization for his unwavering support to the Fund programmes.

**BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND**

**Reports and Financial Statements**

**For the year ended June 30, 2019**

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**3. REPORT OF THE FUND ADMINISTRATOR**

**Key activities during the year**

During the year under review the Fund had two main activities, Loaning and recovery of the disbursed loans.

**Financial Performance.**

The Fund this financial year had total revenue of Kshs4,146,510. The total expenditure was Ksh4,396,510.

**Challenges**

During the year the Fund faced a number of challenges that negatively affected the Fund's ability to deliver on its mandate. These challenges are summarised below:

- (i) Late disbursement of money to the Fund from County Treasury. During the year under review, the Fund received money from the County Treasury in June – last month to the end of the financial year.  
This made it extremely difficult to properly plan and undertake pre and pre-disbursement activities.
- (ii) Inadequate allocation from the County Treasury. For example, during the year only Kshs16.5 million had been allocated against the ballooning demand from cooperatives.
- (iii) Lack of transport for use in the field to monitor and do recoveries of disbursed.
- (iv) Not having loan officers at all the sub county offices. At the moment, the Fund has only four loan officers serving seven sub-counties.
- (v) Lack of an Enterprise Resource Planning system, especially a loan management system. Currently all Fund operations are manual.
- (vi) Lack of autonomy of the Fund. At the moment the Fund is just a unit within the Department of Trade, Co-operatives and Industrialisation, despite the fact that there is a Fund Committee that is supposed to be a body corporate. This limits the Fund's ability to mobilise resources from external sources.
- (vii) None allocation of a recurrent budget to the Fund. The money allocated to the fund has always been treated as development, thus limiting the Fund's expenditure on administration.

***BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND***  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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**Way forward**

In order to address the above mentioned challenges and to make the Fund Sustainable the following issues need to be addressed both by the Fund Committee and the County Treasury

- (i) A Fund needs to operate with a certain minimum amount of seed capital. We suggest that the Treasury needs to give the Fund at least kshs100 million annually for at least five years for the fund to be able to be sustainable and to meet its objectives.
- (ii) The full amount allocated to the Fund should be disbursed at once and not in bits to enable the Fund to plan for its activities.
- (iii) To facilitate faster delivery of services, including monitoring and recovery of disbursed loans, the Fund needs to have loan officers at the sub county level.
- (iv) The Fund will continuously review the loan portfolio to address the portfolio in arrears.
- (v) Review the current Fund Act and Regulations with a view of enhancing the autonomy of the Fund and hence mobilise resources externally.

## **BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND**

### **Reports and Financial Statements**

**For the year ended June 30, 2019**

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#### **4. CORPORATE GOVERNANCE STATEMENT**

##### **i. Introduction**

The Committee of The Fund is committed to upholding the principals of corporate governance that will promote the interest of the people of Busia County, build confidence in its leadership and strengthen the accountability of the committee.

##### **ii. Committee.**

###### **a. Mandate**

The committee's responsibilities are to formulate guidelines on cooperative sector funding; ensure that all projects funded under the Fund's Act are consistent with the counties priorities specified in relevant policy documents; approve proposal submitted to it by the unit under the Act; authorise allocations from the Fund; formulate or approve standards, guidelines and procedures for funding proposals under the Act; Approve the organisation structure of the unit; provide oversight in the utilisation of the fund and; perform any other function as may be conferred on it by the Act or any other written law.

The committee's operations are governed by the Cooperative Enterprise Development Fund Act

###### **b. Membership and size**

The membership comprises of long serving public and non-public servants helping the Fund with diverse experience

The committee currently comprises of six members. Three from the private sector and the rest from the public sector

The committee is satisfied with the commitment of each member.

###### **c. Operations**

The chairperson together with the fund administrator ensures that committee operates effectively and in accordance with the Fund's Act.

The committee meets regularly at least four times a year however, not all such meetings have been held in the year under review due to financial challenges.

###### **d. Committee compensation.**

The committee compensation is done in accordance with the salaries and remuneration guidelines.

###### **e. Separation of roles.**

The roles of the Chairperson and the Fund Administrator are separately held and the division of their responsibilities is clearly established to ensure no duplication or conflict of roles.

Mrs Hellen Ajiambo is responsible for ensuring effective communication with stakeholders including donors, promoting high level of cooperate governance and serving as a resource to management in matters of strategic importance to the Fund.

Mr Oscar E. Odaba is responsible for managing day to day operations of the Fund, execution of strategy and policy approved by the committee. He is also accountable for the Fund performance and reports directly to the committee.

**BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND**  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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**5. REPORT OF THE COMMITTEE MEMBERS**

The Committee Members submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the *entity's* affairs.

**Principal activities**

The Funds' principal activity is to provide funds to be used for granting low interest loans to cooperative institutions operating in Busia County with a view to scaling up their lending activities, value addition, promote entrepreneurship and enhance productivity.

**Results**

The results of the entity for the year ended June 30, 2019 are set out on pages 10, 11 and 13

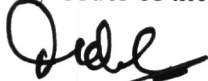
**Directors**

The members of the Committee who served during the year are shown on pages 1 and 2.

**Auditors**

The Auditor General is responsible for the statutory audit of the Cooperative Enterprise Development Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year/period ended June 30, 2019.

By Order of the Committee



Oscar E. Odaba  
Committee Secretary/Administrator  
Busia County  
27<sup>th</sup> September, 2019

**BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND**

**Reports and Financial Statements**

**For the year ended June 30, 2019**

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**6. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES**

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a County Public Fund established by Busia County Cooperative Enterprise Development Fund Act, 2014 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 County Public 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, 2019. 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 County Public Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Busia County Cooperative Enterprise Development Fund Act, 2014. 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, 2019, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Administrator of the County Public 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**

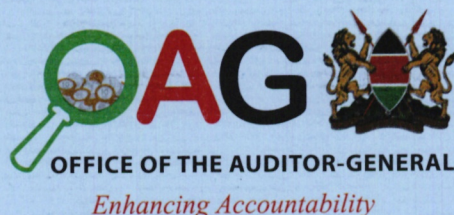
The Fund's financial statements were approved by the Board on 27 Sep 2019 and signed on its behalf by:



\_\_\_\_\_  
Administrator of the County Public Fund

# REPUBLIC OF KENYA

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Website: www.oagkenya.go.ke



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Monrovia Street  
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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON BUSIA COUNTY CO-OPERATIVE ENTERPRISE DEVELOPMENT FUND FOR THE YEAR ENDED 30 JUNE, 2019**

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### REPORT ON THE FINANCIAL STATEMENTS

#### **Qualified Opinion**

I have audited the accompanying financial statements of Busia County Co-operative Enterprise Development Fund set out on pages 10 to 27, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Busia County Co-operative Enterprise Development Fund as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Busia County Co-operative Enterprise Development Fund Act, 2014.

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

##### **1. Transfers from County Government**

The statement of financial performance for the year under review reflects transfers from county government figure of Kshs.495,000 under revenue from non-exchange transactions. However, no documentation or explanation was provided in support of the receipt.

In the circumstances, it was not possible to ascertain the accuracy and completeness of the transfers from county government figure of Kshs.495,000 for the year under review.

##### **2. Current Receivables from Exchange Transactions**

The statement of financial position reflects current portion of long-term receivables from exchange transactions balance of Kshs.65,124,168 which is in respect of outstanding loans due from seventy (70) cooperative societies. The balance of Kshs.65,124,168

includes amounts totalling Kshs.55,850,698 due from fifty-nine co-operative societies that had not paid instalments due totalling Kshs.46,515,594 comprising principal and accrued interest

In addition, five (5) cooperative societies which had been advanced loans totalling Kshs.6,983,000 were required to repay between 13 March, 2015 and 13 September, 2020 had not commenced repayment as at the time of audit report in July, 2020.

The Management did not avail evidence on measures being taken to recover the loans as required by Regulation 18 of the Public Finance Management (the Busia County Co-operative Enterprises Development Fund) Regulations of 2016 which requires among others that any loan that is overdue for three (3) months or more shall be classified as defaulted and process shall be initiated to recover the outstanding loan.

Consequently, the Management is in breach of the law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Busia County Co-operative Enterprises Development 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. Except for the matter described in the Basis for Qualified Opinion and Other Matter section, I have determined that there are no Other Key Audit Matters to communicate in my report

### **Other Matter**

#### **Going Concern/Sustainability of Services**

During the year under review, the Fund recorded net deficit of Kshs.250,000 which increased the accumulated deficit to Kshs.26,839,093 as at 30 June, 2019. If strategies are not put in place to reverse the loss-making trend, the Fund's future operations are likely to face financial challenges.

In the circumstances, the future sustainability of services of the Fund is dependent on the continued financial support by the County Executive of Busia.

## **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 money has 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 are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for 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**

#### **1. Lack of Information Technology Resource Planning System**

It was noted that the Fund was not using any information technology resource planning system including a loans management system. The Fund was using excel software on stand-alone computers and did not have any arrangements for offsite data back up and business disaster recovery plans. In the circumstances, the reliability, accuracy, and sustainability of the internal control of the Fund management could not be ascertained.

#### **2. Lack of Independent Risk Assessment**

During the audit, there was no evidence that the Fund had performed a formal risk assessment to identify risks associated with the loans awarded, revenues, expenditures, frauds and errors. There was no evidence of existence of internal audit to assist in developing and implementing the use of innovative approaches in performing independent assessment of systems, controls and efficiencies guided by professional standards contrary to Regulations 157(1) of the Public Finance Management (County Governments) Regulations, 2015

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

## **Responsibilities of Management and 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 such 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.

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 going concern basis of accounting, unless Management is aware of the intention to liquidate 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.

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

## **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit

the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.


Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to 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

14 January, 2022

**BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND**  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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**8. FINANCIAL STATEMENTS**

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

	Note	FY2018/2019	FY2017/2018
		KShs	KShs
<b>Revenue from non-exchange transactions</b>			
Transfers from the County Government	1	495,000	-
<b>Revenue from Exchange transactions</b>			
Interest income	2	3,651,510	1,198,188
Other income	3	-	6,197,541
<b>Total revenue</b>		<b>4,146,510</b>	<b>7,395,729</b>
<b>Expenses</b>			
Staff Costs	4	1,651,830	2,196,836
General expenses	5	2,744,680	5,764,722
<b>Total expenses</b>		<b>4,396,510</b>	<b>7,961,608</b>
<b>Surplus/( deficit)for the period</b>		<b>(250,000)</b>	<b>(565,879)</b>

The notes set out on pages 22 to 25 form an integral part of these Financial Statements

**BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND**  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

**8.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019**

	Note	FY2018/2019	FY2017/2018
		KShs	KShs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	16,340,146	498,658
Current portion of long term receivables from exchange transactions	7	65,124,168	68,011,916
Outstanding imprests			-
<b>Non-current assets</b>			
Property, plant and equipment	8	4,701,593	5,033,957
<b>Total assets</b>		<b>86,165,907</b>	<b>73,544,531</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions		-	3,133,624
<b>Total liabilities</b>		<b>-</b>	<b>3,133,624</b>
<b>Net assets</b>			
Revolving Fund		113,005,000	97,000,000
Accumulated surplus		-26,839,093	-26,589,093
<b>Total net assets and liabilities</b>		<b>86,165,907</b>	<b>73,544,531</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 27 sep 2019 and signed by:



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

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

	Revolving Fund	Accumulated Deficit	Total
		KShs	KShs
<b>Balance as at 1 July 2017</b>	<b>97,000,000</b>	<b>-26,023,214</b>	<b>70,976,786</b>
Surplus/(deficit)for the period	-	(565,879)	(565,879)
Funds received during the year	-	-	-
Transfer from accumulated surplus	-	-	-
<b>Balance as at 30 June 2018</b>	<b>97,000,000</b>	<b>-26,589,093</b>	<b>70,410,907</b>
<b>Balance as at 30 June 2018</b>	<b>97,000,000</b>	<b>-26,589,093</b>	<b>70,410,907</b>
Surplus/(deficit)for the period	-	(250,000)	(250,000)
Funds received during the year	16,005,000	-	16,005,000
Transfer from accumulated surplus	-	-	-
<b>Balance as at 30 June 2019</b>	<b>113,005,000</b>	<b>-26,839,093</b>	<b>86,165,907</b>

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**8.4. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2019**

	Note	FY2018/2019	FY2017/2018
		KShs	KShs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Transfers from the County Government	1	495,000	-
Interest received	2	3,651,510	1,198,188
<b>Total Receipts</b>		<b>4,146,510</b>	<b>1,198,188</b>
<b>Payments</b>			
General expenses	5	2,258,192	4,918,513
Staff cost	4	1,651,830	2,196,836
<b>Total Payments</b>		<b>3,910,022</b>	<b>7,115,349</b>
<b>Net cash flows from operating activities</b>		<b>236,488</b>	<b>(5,917,161)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets		-	(28,500)
Loan disbursements paid out		(400,000)	(9,152,357)
<b>Net cash flows used in investing activities</b>		<b>(400,000)</b>	<b>(4,082,134)</b>
<b>Cash flows from financing activities</b>			
Proceeds from county treasury		16,005,000	-
Donation from development partners		-	-
<b>Net cash flows used in financing activities</b>		<b>16,005,000</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>15,841,488</b>	<b>(9,999,295)</b>
Cash and cash equivalents at 1 JULY		498,658	10,497,954
<b>Cash and cash equivalents at 30 JUNE</b>		<b>16,340,146</b>	<b>498,658</b>

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

	Original budget	Final budget	Actual on comparable basis	Performance difference	% utilization
	2019	2019	2019	2019	2019
Revenue	KShs	KShs	KShs	KShs	
Bal brought forward	498,658	498,658	498,658	-	1
Loan repayments	9,613,432	9,613,432	3,287,748	6,325,684	0.34
Transfers from County Govt.	16,500,000	16,500,000	16,500,000	-	1
Interest income	2,446,788	2,446,788	3,651,510	(1,204,722)	1.5
<b>Total income</b>	<b>29,058,878</b>	<b>29,058,878</b>	<b>23,937,916</b>	<b>5,120,962</b>	<b>0.8</b>
<b>Expenses</b>					
Loan disbursements paid out	26,117,090	26,117,090	400,000	25,717,090	0.02
Staff costs	1,610,072	1,610,072	1,651,830	(41,758)	1.03
General expenses	1,331,716	1,331,716	2,744,680	(1,412,964)	2.06
<b>Total expenditure</b>	<b>29,058,878</b>	<b>29,058,878</b>	<b>4,796,510</b>	<b>24,262,368</b>	<b>0.17</b>
<b>Surplus for the period</b>	<b>-</b>	<b>-</b>	<b>19,141,406</b>	<b>(19,141,406)</b>	<b>-</b>

**Budget notes**

1. *Loan repayments- non repayment of loans by some societies.*
2. *Interest income-repayment of interest by societies awarded earlier.*
3. *Loan disbursements-Late disbursement of funds by the county treasury.*
4. *General expenses-increased hospitality costs.*

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**8.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Statement of compliance and basis of preparation**

The Fund's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Fund. The accounting policies have been consistently applied to all the years presented.

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

**2. Adoption of new and revised standards**

**a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 39:</b> Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

**b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 40:</b> Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

**c) Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2018.

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

**3. Revenue recognition**

**i) Revenue from non-exchange transactions**

**Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

**ii) Revenue from exchange transactions**

***Interest income***

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method appliesthis yield to the principal outstanding to determine interest income each period.

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

**4. 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.

The depreciation rates are as follows:

Furniture and Fittings-12 1/2 %

Motor Vehicle-20%

Computers-5years

**5. Nature and purpose of reserves**

The Entity creates and maintains reserves in terms of specific requirements. Changes in accounting policies and estimates

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

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

**6. Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**7. Comparative figures**

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

**8. Events after the reporting period**

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

**9. Ultimate and Holding Entity**

The entity is a County Public Fund established by Cooperative Enterprise Development Act, 2014 under the Ministry of Trade Cooperatives and Industrialization. Its ultimate parent is the County Government of Busia.

**10. Currency**

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

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

**11. 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.

**Useful lives and residual values**

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

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

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

**12. Financial risk management**

The Fund’s activities expose it to a variety of financial risks including credit and liquidity risks. The Fund’s overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Fund does not hedge any risks and 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 company’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 KShs</b>	<b>Fully performing KShs</b>	<b>Past due KShs</b>
<b>At 30 June 2019</b>			
Receivables from exchange transactions	65,124,168		
<b>Total</b>	<b>65,124,168</b>		

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

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

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

**b) Capital risk management**

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

	<b>2019</b>	<b>2018</b>
	<b>KShs</b>	<b>KShs</b>
Revolving fund	113,005,000	97,000,000
Accumulated surplus	(26,839,093)	(26,589,093)
<b>Total funds</b>	<b>86,165,907</b>	<b>70,410,907</b>

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**8.7. NOTES TO THE FINANCIAL STATEMENTS**

**1. Transfers from County Government**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Transfers from County Govt. – operations	495,000	-
<b>Total</b>	<b>495,000</b>	<b>-</b>

**2. Interest income**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Interest income from loans	3,651,510	1,198,188
Interest income from fixed deposit	-	-
<b>Total interest income</b>	<b>3,651,510</b>	<b>1,198,188</b>

**3. Other income**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Income from administrative fees	-	-
Income from operating activities	-	6,197,541
<b>Total other income</b>	<b>-</b>	<b>6,197,541</b>

**4. Staff costs**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Salaries and wages	980,480	1,183,776
Other staff costs	671,350	1,013,060
<b>Total</b>	<b>1,651,830</b>	<b>2,196,836</b>

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

**5. General expenses**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Training	20,000	748,000
Electricity and water expenses	-	6,000
Fuel and oil costs	-	90,000
Postage	9,450	10,960
Advertising and Tradeshow	250,000	-
Printing and stationery	6,960	148,140
Office admin	382,865	476,500
Repairs & Maintainance	32,101	158,601
Telecommunication	165,000	242,000
Hospitality	1,545,940	2,773,300
Depreciation and amortization costs	332,364	846,259
Other expenses	-	265,012
<b>Total</b>	<b>2,744,680</b>	<b>5,764,772</b>

**6. Cash and cash equivalents**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Current account	16,340,146	498,658
<b>Total cash and cash equivalents</b>	<b>16,340,146</b>	<b>498,658</b>

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

		FY2018/2019	FY2017/2018
Financial institution	Account number	KShs	KShs
<b>a) Current account</b>			
Cooperative Bank Of Kenya	01141236664000	16,006,235	60,402
Cooperative Bank Of Kenya	01141236664001	24,633	9,279
Cooperative Bank Of Kenya	01141236664002	309,278	428,977
<b>Sub- total</b>		<b>16,340,146</b>	<b>498,658</b>

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**7. Receivables from exchange transactions**

Description	FY2018/2019	FY2017/2018
	KShs	KShs
<b>Current Receivables</b>		
<b>Loan receivable Balb/f As at July, 2016</b>	<b>56,148,463</b>	<b>35,991,448</b>
Less: Recoveries	6,619,181	5,074,025
Add: Disbursements	14,429,000	25,231,000
<b>Loan receivable Bal c/f As at June, 2017</b>	<b>63,958,282</b>	<b>56,148,463</b>
<b>Loan receivable Balb/f As at July, 2017</b>	<b>63,958,282</b>	<b>56,148,463</b>
Less: Recoveries	5,098,723	6,619,181
Add: Disbursements	9,152,,357	14,429,000
<b>Loan receivable Bal c/f As at June, 2018</b>	<b>68,011,916</b>	<b>63,958,282</b>
<b>Loan receivable Balb/f As at July, 2018</b>	<b>68,011,916</b>	<b>63,958,282</b>
Less: Recoveries	3,287,748	5,098,723
Add: Disbursements	400,000	9,152,,357
<b>Loan receivable Bal c/f As at June, 2019</b>	<b>65,124,168</b>	<b>68,011,916</b>
<b>Total Current receivebles</b>	<b>65,124,168</b>	<b>68,011,916</b>
<b>Total receivables from exchange transactions</b>	<b>65,124,168</b>	<b>68,011,916</b>

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

**8. Property, plant and equipment**

	<b>Motor vehicles</b>	<b>Furniture and fittings</b>	<b>Computers and office equipment</b>	<b>Total</b>
<b>Depreciation Rate</b>	<b>20%</b>	<b>121/2 %</b>	<b>5 years</b>	
<b>Cost</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>	<b>KShs</b>
<b>At 1<sup>st</sup> July 2017</b>				
Additions	-	-	28,500	<b>28,500</b>
<b>At 30<sup>th</sup> June 2018</b>	<b>5,092,046</b>	<b>360,720</b>	<b>427,450</b>	<b>5,880,216</b>
<b>At 1<sup>st</sup> July 2018</b>	<b>5,092,046</b>	<b>360,720</b>	<b>427,450</b>	<b>5,880,216</b>
Additions	-	-	-	-
<b>At 30<sup>th</sup> June 2019</b>	<b>5,092,046</b>	<b>360,720</b>	<b>427,450</b>	<b>5,880,216</b>
<b>Depreciation and impairment</b>				
At 1 <sup>st</sup> July 2017	270,897	113,591	129,407	513,895
Depreciation	203,682	43,648	85,034	332,364
<b>At 30<sup>th</sup> June 2018</b>	<b>474,579</b>	<b>157,239</b>	<b>214,441</b>	<b>846,259</b>
<b>At 1<sup>st</sup> July 2018</b>	<b>474,579</b>	<b>157,239</b>	<b>214,441</b>	<b>846,259</b>
Depreciation	203,682	43,648	85,034	332,364
<b>At 30<sup>th</sup> June 2019</b>	<b>678,261</b>	<b>200,887</b>	<b>299,475</b>	<b>1,178,623</b>
<b>Net book values</b>				
<b>At 30<sup>th</sup> June 2018</b>	<b>4,617,467</b>	<b>203,481</b>	<b>213,009</b>	<b>5,033,957</b>
<b>At 30<sup>th</sup> June 2019</b>	<b>4,413,785</b>	<b>159,833</b>	<b>127,975</b>	<b>4,701,593</b>

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

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

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
1	Non-recovery and remittance of payroll deductions	The Fund is not yet a gazetted semi-autonomous County Government entity and therefore it still operates as a Directorate within the County Department of Trade, Cooperatives and Industrialization.	Fund Administrator	Not resolved	
2	Doubts on the Sustainability of the services by the Fund	The managements view is that if the administration expenditure is pegged on interest only, fund operations will have some challenges since the fund charges a small interest of 8%. The fund had also put in place robust and strict measures to secure all	Fund Administrator	Not resolved	

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<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
		loans given out. For example log books for bodaboda cooperatives societies have been retained by fund to secure loans. For housing cooperative societies, we charge their land to secure the loans.			