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# **STAFF MORTGAGE SCHEME ANNUAL REPORT AND FINANCIAL STATEMENTS**

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



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

## Table of Contents

1. Abbreviations, Acronyms and Glossary of Terms.....	iii
2. Key Entity Information and Management.....	iv
3. The Scheme Management Committee.....	vii
4. Chairman's Report.....	ix
5. Report of the Scheme Administrator.....	xi
6. Statement of Performance Against the Scheme Objectives.....	xiii
7. Corporate Governance Statement.....	xiv
8. Management Discussions and Analysis.....	xvi
9. Environmental and Sustainability Reporting.....	xviii
10. Report of The Scheme Committee.....	xix
11. Statement of Management's Responsibilities.....	xx
12. Report of The Independent Auditor on The Financial Statements of The Staff Mortgage Scheme of The Office of The Auditor-General for The Year Ended 30 June 2020.....	xxii
13. Statement of Financial Performance for The Year Ended 30 June 2020.....	1
14. Statement of Financial Position as at 30 June 2020.....	2
15. Statement of Changes in Net Assets as at 30 June 2020.....	3
16. Statement of Cash Flows for The Year Ended 30 June 2020.....	4
17. Statement of Comparison of Budget and Actuals for The Period Ended 30 June 2020.....	5
18. Notes to Financial Statements.....	6
19. Annexes.....	22

## 1. Abbreviations, Acronyms and Glossary of Terms

### A. Abbreviations and Acronyms

AWAK	Association of Women Accountants of Kenya
CBS	Chief of the Order of the Burning Spear
CHRP	Certified Human Resource Professional
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
ISACA	Information Systems Audit and Control Association
KSHS	Kenya Shillings
OAG	Office of the Auditor-General
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
SRC	Salaries and Remuneration Commission
TNT	The National Treasury

### B. Glossary of Terms

**Fiduciary management-** Members of management entrusted directly with the responsibility and trust for the Scheme's financial resources.

**Accrual basis-** a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

**Assets-** are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

**Expenses-** are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

**Revenue-** is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

## **2. Key Entity Information and Management**

The Office of the Auditor-General Staff Mortgage Scheme is a Revolving Fund established and administered as provided for under Section 24 (4) (5) (6) and (7) of the PFM Act, 2012 and Section 127 (1) (2) of the PFM (National Government) Regulations, 2015. Further, the Scheme was established pursuant to the Salaries and Remuneration Commission Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) dated 17 December, 2014 which provided the Guidelines for access of Mortgage and Car Loan benefits by state and public officers. The objective of the Scheme is to provide mortgage loans to the Office of the Auditor-General employees to enable them to acquire or build decent residential houses.

For proper management of the Scheme as provided for in the SRC Circular under reference, the Office of the Auditor-General developed Staff Car loan and Mortgage Scheme Guidelines and adopted the PFM Act, 2012 and PFM Regulations, 2015 to guide in the operationalization of the Scheme.

The Auditor-General appointed a Management Committee which consists of eight members, including the Chairman and a Secretary, to undertake the day to day running of the Scheme on her behalf. The main role of the Committee is to evaluate and approve applications and submit the same for processing by the appointed Service Provider (Housing Finance Company Limited) in line with the Guidelines.

The Scheme is wholly owned by the Office of the Auditor-General and is domiciled in Kenya.

### **a) Principal Activities**

The principal activity of the Scheme is to provide mortgage loans to the Office of the Auditor-General employees to enable them to acquire or build decent residential houses either for their current or ultimate occupation upon retirement.

**b) Scheme Management Committee**

S/No.	Name	Position
1.	FCPA Nancy Gathungu, CBS	Scheme Administrator
2.	CPA William Agunda	Chairman - retired in March 2023
3.	CPA Dr. Leonard Lari	Chairman - appointed in April 2023
4.	CPA Joyce Mbaabu	Vice Chairman
5.	CPA Charles Mwitari	Member
6.	CPA Hannah Mwaura	Member
7.	CPA Mercy Mukiri	Member
8.	CPA Ronald Bichanga	Member
9.	CS Milcah Ondiek	Member
10.	CHRP Ben Muok	Secretary

**c) Fiduciary Oversight Arrangements**

No.	Name	Position
1.	CPA Martha Mbau	Director, Internal Audit
2.	CPA William Agunda	Scheme Committee Chairman
3.	CHRP Ben Muok	Scheme Committee Secretary

**d) Registered Offices**

**Scheme Headquarters**

Office of the Auditor-General  
Anniversary Towers 3<sup>rd</sup> Floor  
University Way  
P.O. Box 30084-00100, Nairobi, Kenya  
Telephone: (254) 020-3214000  
E-mail: [info@oagkenya.go.ke](mailto:info@oagkenya.go.ke)  
Website: [www.oagkenya.go.ke](http://www.oagkenya.go.ke)

**e) Scheme Contacts**

OAG Headquarters, Nairobi  
Anniversary Towers 3<sup>rd</sup> Floor  
University Way  
P.O. Box 30084-00100  
Telephone: (254) 020-3214000  
E-mail: [info@oagkenya.go.ke](mailto:info@oagkenya.go.ke)  
Website: [www.oagkenya.go.ke](http://www.oagkenya.go.ke)

**f) Scheme Bankers**

Housing Finance Company Limited, Mortgage Division  
Head Office: Rehani House, Kenyatta Avenue / Koinange Street  
P.O. Box 30088-00100  
Mobile number: 0709 438 000 & 0709 438 888  
Email: [customer.service@hfgroup.co.ke](mailto:customer.service@hfgroup.co.ke) or [mybank@hfgroup.co.ke](mailto:mybank@hfgroup.co.ke)

**g) Independent Auditors**

PKF Kenya LLP  
Certified Public Accountants  
P.O. Box 14077, 00800  
Nairobi, Kenya

**h) Principal Legal Adviser**

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

### 3. The Scheme Management Committee



#### **CPA William Agunda**

CPA Agunda is the Chairman of the Management Committee. He holds a Bachelor of Commerce degree (Accounting) and is a Certified Public Accountant (K). He has over 30 years' experience in Financial audit in the public sector. CPA Agunda is a Deputy Auditor General - Financial Audit Services in the Office of the Auditor-General.



#### **CPA Joyce Mbaabu**

CPA Mbaabu is the Vice Chairman of the Management Committee. She holds a Bachelor of Commerce (Business Administration) degree and is a Certified Public Accountant (K). She has over 30 years' experience in Financial audit in the public sector. She is a member of the Association of Women Accountants of Kenya (AWAK) and the Institute of Certified Public Accountants (ICPAK). CPA Mbaabu is a Deputy Auditor General in charge of Corporate Services in the Office of the Auditor-General.



#### **CHRP Ben Muok**

CHRP Muok is the Secretary of the Management Committee. He played a central role in the establishment and operationalization of the Scheme. He holds a Bachelor of Commerce and a Master of Business Administration in Human Resource Management. He has a wealth of experience in Organizational Development, Change Management and development of policies and strategy frameworks in the public sector spanning over 20 years. Ben is a Practicing member of the Institute of Human Resource Management (Kenya). CHRP Muok is a Deputy Director Human Resource in the Office of the Auditor-General.



#### **CPA Hannah Mwaura**

CPA Mwaura is a member of the Management Committee. She holds a Master of Business Management (Strategic Management), Bachelor of Commerce (Business Management) degree and is a Certified Public Accountant (K). She is a member of the Association of Women Accountants of Kenya (AWAK) and the Institute of Certified Public Accountants (ICPAK). CPA Mwaura is a Deputy Director of Audit in the Office of the Auditor-General.

### The Scheme Management Committee (Continued)



**CPA Charles Mwitari**

CPA Mwitari holds a Bachelor of Commerce degree and a Master's degree in Business Administration. He has over 20 years working experience in private and public sector with particular attention to financial management, budgetary control, statutory and management reporting, Internal controls assessment and risk management. He is a Certified Public Accountant (K), Certified Public Secretary (CPS) and Certified Pension Trustee (TDPK). CPA Mwitari as the Director of Audit.



**CPA Ronald Bichanga**

CPA Bichanga is a member of the Management Committee. He had over 35 years work experience in Financial Audit in the public sector. He is a Certified Public Accountant (K). CPA Bichanga is a Director of Audit in the Office of the Auditor-General.



**CS Milkah Ondiek**

CS Ondiek is a member of the Management Committee. She holds a Bachelor's degree in Law (LLB) and a post graduate diploma from Kenya School of Law. CS Ondiek is a Manager Legal services in the Office of the Auditor-General and is the legal advisor to the Committee. She is also an Advocate of the High Court of Kenya.



**CPA Mercy Mukiri**

CPA Mukiri is a member of the Management Committee. She holds a Bachelor of Commerce (Business Management) degree and is a Certified Public Accountant (K). She has over 25 years' experience in Financial auditing in the public sector. CPA Mukiri is a Director of Audit in the Office of the Auditor-General.

#### 4. Chairman's Report



The Mortgage Scheme is a Revolving Fund for OAG staff established and administered as provided under Section 24 (6) (7) of the PFM Act, 2012 and section 127 (1) (2) of the PFM (National Government) Regulations, 2015. Further the Fund was established pursuant to SRC Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) dated 17 December, 2014.

The Scheme is administered by the Auditor-General through a Management Committee. The role of the Management Committee is to evaluate and recommend applications for processing in line with the regulations. Further, the Auditor-General has enlisted the services of a financial institution (Housing Finance Company Limited) to provide professional advisory services to the Management Committee which includes but not limited to financial, legal and valuation services.

The Scheme was established and operationalized with effect from 13 June, 2016 to enable employees acquire decent residential houses either for their current or ultimate occupation upon retirement. The initial seed capital of Kshs.70 million was transferred to the Housing Finance Company Limited account on 26 May, 2016.

During the year under review, a total of 23 applications were approved and loans totalling Kshs.151,517,955 disbursed to the successful applicants bringing the number of OAG staff who have accessed mortgage facilities since inception to 82. By the end of the financial year 2019/20, funds totalling Kshs.711,289,000 had been transferred to the Scheme from the Office of the Auditor-General and loans worth Kshs.567,294,717 disbursed to staff members.

The Scheme received funding of Kshs.148,106,200 from Exchequer through OAG and earned interest income of Kshs.11,982,857 from the funds held in HFCK bank account. In addition, interest totalling Kshs.13,843,878 was realized from loans advanced to staff all of which was applied to payment of Schemes management costs.

In the same period, expenses totalling Kshs.15,641,306 were incurred consisting of management costs of Kshs.13,843,878 and withholding tax on interest earned of Kshs.1,797,429 charged at a prevailing tax rate of 15%.

The main challenges witnessed during the period under review included the following:

- ✚ Non-compliance with the requirements by some applicants leading to failure to secure mortgage funding.
- ✚ Lengthy turnaround/processing time for mortgage applications.

### Way forward

The Scheme will continue to lobby The National Treasury and National Assembly for additional funding and do more sensitization of staff on the Scheme to improve on the facility uptake.

I look forward to seeing the Scheme facilitate more OAG staff to realize their dreams of owning residential houses in the coming years.



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

**CPA Dr. Leonard Lari**  
**Committee Chairman**  
**ICPAK Member: 2981**

Date: 09-08-2024

## 5. Report of the Scheme Administrator



It is with great pleasure that I present to you the Scheme financial statements for financial year 2019/2020.

The financial statements presented comprises of the statement of financial performance, statement of financial position, statement of changes in net assets and the statement of cash flows.

The Scheme ensures prudent financial management and reporting in line with Public Financial Management Act, 2012, Public Financial Management Regulations 2015, and International Public Sector Accounting Standards (IPSAS). As a result, the Scheme has been efficient and effective in meeting its mandate.

The implementation and administration of the Scheme is overseen by the Staff Mortgage and Car Loan Committee in liaison with the external service provider, being Housing Finance Company Limited. The Committee meets regularly to consider loan applications and make recommendations to the service providers.

I am glad to report that during the year under review, the Scheme continued undertaking its mandate of providing mortgage loans to OAG staff members for acquisition of decent residential houses. **Twenty-three (23)** applications were approved and processed and the related mortgage loans disbursements amounted to **Kshs.151,517,955**. This brought the cumulative amount of mortgage loans disbursed since inception to **Kshs.567,294,717** with **82** staff members having benefited.

During the year under review, the Scheme received Exchequer funding of **Kshs.148,106,200** bringing the cumulative amount transferred through OAG to **Kshs.711,289,000**. The Scheme also received interest income of **Kshs.11,982,857** from HFCK in respect to funds held and earned interest from loans advanced to staff amounting to **Kshs.13,843,878**.

### **Future Outlook of the Scheme**

The future of the Scheme looks bright as the Office continues to lobby for more funds from the Exchequer to enable other employees benefit from the facility. In the long run, the Scheme is expected to be self-sustaining whereby, funds received from mortgage repayments will be adequate to cater for future funding demands.

### **Appreciation**

I take this opportunity to express my sincere gratitude and appreciation to the Management Committee for steering the Scheme and to The National Treasury for the continued funding. I also wish to appreciate the Staff members and all other stakeholders for their support without which the Scheme's objectives wouldn't have been realized.

I look forward to seeing more staff members benefit from the Scheme in the coming years which will go a long way in boosting morale and job performance.

Signed:   
FCPA Nancy Gathungu, CBS  
Auditor-General/Fund Administrator

Date: 09-08-2024

## 6. Statement of Performance Against Predetermined Objectives

Section 81 (2)(f) of the Public Financial Management Act, 2012 requires that at the end of each financial year, the Accounting Officer when preparing financial statements of each National Government Entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national entity's performance against predetermined objectives.

To achieve the objective of SRC Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) dated 17 December, 2014 that initialized the establishment of the Fund, the Office set the key strategic objective of the Scheme as being to attract, retain and motivate a competent, effective and efficient workforce.

The Fund's performance against predetermined objectives is as outlined below:

Objective	Outcome	Indicator	Performance
To retain and motivate a competent, effective and efficient workforce.	Increased number of Staff accessing the mortgage loans.	% of staff applicants issued with mortgage Loans	23 staff members accessed mortgage loans in FY2019/20 bringing the total beneficiaries to 82. This represents 54% of the 153 total loan applications received since inception.

## **7. Corporate Governance Statement**

### **(i) The Mortgage Scheme**

The Mortgage Scheme is a Revolving Fund established pursuant to the SRC Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) dated 17 December, 2014 and in accordance with Section 24(4)(5)(6) & (7) of the Public Finance Management Act, 2012 and Section 127 (1) (2) of the PFM (National Government) Regulations, 2015. Its mandate is to provide mortgage funding to OAG staff members for acquisition of residential houses.

The Scheme is committed to ensuring compliance with regulatory and corporate governance requirements. A formal governance structure with a committee at the apex is essential in establishment of a corporate governance framework in the Scheme. The operation of the Scheme is governed by PFM Act, 2012, PFM Regulations, OAG Staff Car Loan and Mortgage Scheme Guidelines, SRC Circulars, National Treasury Circulars and other relevant Legislations.

### **(ii) The Scheme Management Committee**

The Guidelines for the Staff Car Loan and Housing Mortgage Scheme, 2016 (revised 2019) provides for the appointment of a Committee and Administrator of the Scheme. The Committee consists of eight members including the Chairman and a Secretary, appointed by the Auditor-General to oversee the running of the Scheme on her behalf. The Committee is responsible for the long-term strategic direction of the Scheme and it exercises leadership, integrity and judgement in direction the Scheme. The main role of the Committee is to evaluate and approve loan applications and submit the same for processing by the service provider (Housing Finance Company Ltd) in line with the Guidelines.

The Committee is provided with timely information that enables it to maintain full and effective control over strategic, financial, operational and compliance issues. The day to day running of the Scheme is delegated to the Scheme administrator/service provider but the Committee is responsible for establishing and maintain the Scheme's system of internal controls for the realisation of its mandate.

**(iii) Committee Meetings**

The Committee meets quarterly or as required in order to monitor and review the Scheme's operations. The Committee also plays an oversight role over financial and operational issues of the Scheme.

**(iv) Statement of Compliance**

The Committee confirms that the Scheme has throughout the financial year complied with all statutory and regulatory requirements and that the Scheme has been managed in accordance with the principles of good corporate governance.

**(v) Internal Control and Risk Management**

The Committee is responsible for reviewing the effectiveness of the Scheme's system of internal control which is designed to provide reasonable assurance regarding the safeguarding of assets against unauthorized use or disposal and for maintenance of proper accounting records and reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable assurance against material misstatement or loss.

**(vi) Auditor**

The Scheme is audited and reported on by a professionally qualified accountant appointed by the National Assembly in accordance with Article 226(4) of the Constitution of Kenya, 2010.

## 8. Management Discussions and Analysis

### (i) The Scheme's operational and financial performance

The Scheme was established in 2016 with the objective of providing Mortgage financing to the OAG staff members to purchase or construct decent houses for their current or ultimate occupation upon retirement.

The Auditor-General has the overall responsibility over the Scheme and has appointed a Management Committee to oversee the implementation and administration of the Scheme in liaison with the contracted external service provider.

Since inception **82** staff have benefited with mortgages totalling **Kshs.567,294,717** from the Scheme to enable Auditor-General employees acquire decent residential houses either for their current or ultimate occupation upon retirement. During the period under review, **23** applications were approved and issued with loans worth **Kshs.151,517,955**.

	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
No. of Applications	-	62	21	37	33
Approved Applications	-	14	19	26	23
Loans Issued	-	102,115,000	138,282,092	175,379,670	151,517,955
Loans Repaid	-	2,679,156	10,786,120	23,833,745	37,467,110
Loans Outstanding	-	99,435,844	226,931,816	378,477,741	492,528,586
Exchequer receipts	70,000,000	139,813,000	202,268,700	151,101,100	148,106,200
Interest received	-	7,892,992	12,005,940	27,710,104	25,826,735
Bank Balances	70,000,000	113,086,219	194,907,858	204,015,364	246,071,658

The Scheme received interest income in the fixed term deposit account of Kshs.11,982,857 and Kshs.13,843,878 being interest earned from the Loanees. During the period under review, the Scheme also received Kshs.148,106,200 from the National Treasury. Since inception, the Scheme has received Exchequer funding totalling Kshs.711,289,000.

**(ii) Financial Performance for the Last 4 Years**

	2016/17	2017/18	2018/19	2019/20
	Kshs	Kshs	Kshs	Kshs
Revenues from The National Treasury	139,813,000	202,268,700	151,101,100	148,106,200
Interest earned from deposits	6,339,081	6,662,852	18,247,654	11,982,857
Interest earned from Loanees	1,553,911	5,343,088	9,462,450	13,843,878
<b>Total</b>	<b>147,705,992</b>	<b>214,274,640</b>	<b>178,811,204</b>	<b>173,932,935</b>
Transferred to Revolving Fund	139,813,000	202,268,700	151,101,100	148,106,200
Management expenses	1,553,911	5,343,088	9,462,450	13,843,878
Withholding taxes	950,862	999,428	2,737,148	1,797,429
<b>Total expenses</b>	<b>142,317,773</b>	<b>208,611,216</b>	<b>163,300,698</b>	<b>163,747,506</b>
<b>Surplus/Deficit for the period</b>	<b>5,388,219</b>	<b>5,663,424</b>	<b>15,510,506</b>	<b>10,185,429</b>

It is expected that the Scheme will be self-sustaining in future as more and more loan repayments get ploughed back to the Revolving Fund.

**(iii) Scheme's Compliance with Statutory Requirements**

The Scheme has throughout the financial year complied with all statutory and regulatory requirements and that the Scheme has been managed in accordance with the principles of good corporate governance.

**(iv) Material Arrears in Statutory/Financial Obligations**

The Scheme does not have any known material arrears in statutory/financial obligations as at the reporting date.

**(v) The Scheme's Financial Probity and Serious Governance Issues**

To obtain assurance on compliance and prudence in the management of the Scheme finances, the Scheme prepares the financial statements for the mortgage funds which are subjected to both internal and external audits. The audit findings and recommendations enable the Office to strengthen the Scheme operational and financial systems. There is no case of financial impropriety and governance issues reported to any government agency during the year.

## **9. Environmental and Sustainability Reporting**

Environmental and Sustainability Responsibility is an integral part of our culture. As a responsible organisation, we respect the interests of our stakeholders including the OAG employees and the wider community and we actively seek opportunities to improve the environment and contribute to the well-being of the communities around us.

### **(vi) Financial Sustainability**

The principal activity of the Scheme is to provide mortgage loans to the OAG staff to enable them acquire decent residential houses either for their current or ultimate occupation upon retirement. The Scheme received funding from The National Treasury through the Office of Auditor-General and from interest earned on bank deposits and from loans advanced. The Scheme is a Revolving Fund hence all interests and capital repayments are ploughed back to the Scheme for onward lending to more applicants. Eventually the Scheme should be self-sustaining and not rely on Exchequer funding.

### **(vii) Capacity Improvement**

The Scheme has organized a training program for the Management Committee members to understand their role in the process of vetting loan applications. In conjunction with the Scheme Administrator, the Scheme has also planned for virtual and physical sensitization for OAG employees where they will be taken through the application process and the requirements that are needed for them to apply and successfully qualify for loans. This will ensure that the employees get served better while preparing them for a prosperous retirement.

### **(viii) Knowledge Sharing Platforms**

The Scheme in conjunction with the Corporate Communication and Information Communication Technology Directorates provides information to OAG staff regarding products and services and the Scheme's milestones through emails and newsletters. The feedback reports obtained from staff help in improving the services offered by the Scheme.

During the financial year under review, the Scheme did not carry-out any Corporate Social Responsibility (CSR) activities.

## 10. Report of The Scheme Committee

The Office of the Auditor-General submits the report of the Scheme together with the audited financial statements for the year ended 30 June, 2020 which show the state of the Scheme's affairs.

### (i) Principal Activities

The principal activity of the Scheme is to provide Mortgage financing to the OAG members of staff to purchase or construct decent houses for their current or ultimate occupation upon retirement.

### (ii) Performance

The performance of the Scheme for the year ended 30 June, 2020 is set out on page 1 to 21.

### (iii) Committee

The members of the Committee are as shown on page vii.

### (iv) Auditors

PKF Kenya LLP were appointed by the National Assembly to audit the financial statements for the 2019/20 financial year.

By Order of the Committee



CPA Dr. Leonard Lari  
Committee Chairman

Date: 09-08-2024

## **11. Statement of Management's Responsibilities**

Section 84 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a National Public Fund established under the constitution or an act of parliament shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Auditor-General is the administrator of the Scheme Fund and is responsible for the preparation and presentation of financial statements, which give a true and fair view of the state of affairs of the Scheme for and as at the end of the financial year ended on 30 June, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Scheme; (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 Scheme; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

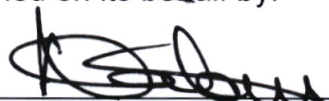
The Auditor-General accepts responsibility for the Scheme's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Auditor-General is of the opinion that the financial statements give a true and fair view of the state of Fund's transactions during the financial year ended 30 June, 2020 and of its financial position as at that date.

The Auditor-General further confirms the completeness of the accounting records maintained for the Scheme, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Auditor-General has assessed the Scheme'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 Auditor-General to indicate that the Scheme will not remain a going concern for at least for the next twelve months from the date of this statement.

### Approval of the Financial Statements

The Scheme's financial statements were approved by the Committee on 09-08-2024 and signed on its behalf by:



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FCPA Nancy Gathungu, CBS  
Auditor-General

ICPAK Member No: 4893

## **12. Report of the Independent Auditor on the Financial Statements of the Staff Mortgage Scheme of the Office of the Auditor-General for the Year Ended 30 June 2020**

### **Opinion**

We have audited the financial statements of the Staff Mortgage Scheme of the Office of the Auditor-General (OAG), set out on pages 1 to 22, which comprise the statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets, statement of cash flows for the year then ended, statement of comparison of budget and actuals and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly in all material respects the Scheme's financial position as at 30 June 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Public Finance Management Act, 2012.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Scheme and Office of the Auditor-General in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have not determined any matter to be a key audit matter to be communicated in our report.

### **Other information**

The Auditor-General is responsible for the other information. The other information comprises key Scheme information and management, the Scheme management committee, chairman's report, report of the Scheme administrator, statement of performance against predetermined objectives, corporate governance statement, management discussion and analysis, environmental and sustainability reporting, report of the Scheme committee, statement of management's responsibilities and Annex 1 and Annex 2 that comprise the annual report but does not include the financial statements and our auditor's report thereon.

**Report of the Independent Auditor on the Financial Statements of the Staff Mortgage Scheme of the Office of the Auditor-General for the Year Ended 30 June 2020 (Continued)**

**Other information (continued)**

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Auditor-General and those charged with governance for the financial statements**

Auditor-General and those charged with governance are responsible for the preparation and fair presentation of the Scheme's financial statements in accordance with the International Public Sector Standards Board (accrual basis), and for such internal control as the 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, the Auditor-General and those charged with governance are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Auditor-General either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Scheme's financial reporting process.

**Auditor's Responsibilities for the Audit of the Staff Mortgage Scheme of the Office of the Auditor-General Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Scheme's 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement 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 the financial statements.

As part of an audit in accordance with International standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

**Report of the Independent Auditor on the Financial Statements of the Staff Mortgage Scheme of the Office of the Auditor-General for the Year Ended 30 June 2020 (Continued)**

**Auditor's Responsibilities for the Audit of the Staff Mortgage Scheme of the Office of the Auditor-General Financial Statements (continued)**

- 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 our 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme.
- Conclude on the appropriateness of the Scheme'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 its ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- 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.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide those charged with governance with a statement that we 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 our independence, and where applicable, related safeguards.



**Report of the Independent Auditor on the Financial Statements of the Staff Mortgage Scheme of the Office of the Auditor-General for the Year Ended 30 June 2020 (continued)**

**Auditor's Responsibilities for the Audit of the Staff Mortgage Scheme of the Office of the Auditor-General Financial Statements (continued)**

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal requirements**

As required by the Public Audit Act, 2015 we report to you that:

- a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- b. In our opinion proper books have been kept by the Scheme, so far as it appears from our examination of those books;
- c. The Scheme's financial statements are in agreement with the accounting records.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Mohamed Asif Chaudhry, Practising Certificate No. 2059.

.....*Chaudhry*.....

For and on behalf of PKF Kenya LLP  
Certified Public Accountants  
Nairobi, Kenya

.....12-08-.....2024

1073/24


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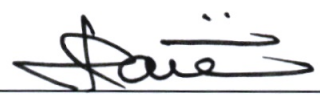
13. Statement of Financial Performance for The Year Ended 30 June 2020

		2019/2020	2018/2019
	Notes	Kshs	Kshs
<b>Revenue from Non-Exchange Transactions</b>			
Transfers from OAG	5	148,106,200	151,101,100
		<b>148,106,200</b>	<b>151,101,100</b>
<b>Revenue from Exchange Transactions</b>			
Interest income from Deposits	6	11,982,857	18,247,654
Interest income from Loanees	6	13,843,878	9,462,450
		<b>25,826,735</b>	<b>27,710,104</b>
<b>Total Revenue</b>		<b>173,932,935</b>	<b>178,811,204</b>
<b>Expenses</b>			
Management costs	7	(13,843,878)	(9,462,450)
Transfer to Revolving Fund	9	(148,106,200)	(151,101,100)
<b>Total Expenses</b>		<b>(161,950,078)</b>	<b>(160,563,550)</b>
<b>Surplus before Tax</b>		<b>11,982,857</b>	<b>18,247,654</b>
Tax expense	8	(1,797,429)	(2,737,148)
<b>Surplus after Tax</b>		<b>10,185,429</b>	<b>15,510,506</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 09-08-2024 and signed by:

  
 \_\_\_\_\_  
 FCPA Nancy Gathungu, CBS  
 Auditor-General

ICPAK No: 4893


  
 \_\_\_\_\_  
 CPA Isaac Ng'ang'a  
 Deputy Auditor General -  
 Corporate Services

ICPAK No: 8292

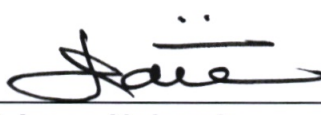
14. Statement of Financial Position as at 30 June 2020

		2019/2020	2018/2019
	Notes	Kshs	Kshs
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	10	246,071,658	204,015,364
Loans Receivable	11	492,528,586	378,477,741
Due from Scheme banker	12	9,436,334	7,251,844
<b>Total Current Assets</b>		<b>748,036,578</b>	<b>589,744,949</b>
<b>Total Assets</b>		<b>748,036,578</b>	<b>589,744,949</b>
<b>LIABILITIES</b>			
Non-Current Liabilities		-	-
Current Liabilities		-	-
<b>Total Liabilities</b>		<b>-</b>	<b>-</b>
<b>NET ASSETS</b>			
		<b>748,036,578</b>	<b>589,744,949</b>
Revolving Fund	13	711,289,000	563,182,800
Accumulated Surplus	14	36,747,578	26,562,149
<b>TOTAL EQUITY</b>		<b>748,036,578</b>	<b>589,744,949</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 09-08-2024 and signed by:

  
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 Auditor-General

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 Deputy Auditor General -  
 Corporate Services

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15. Statement of Changes in Net Assets for the Year Ended 30 June 2020

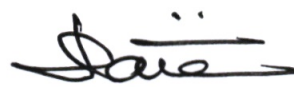
	Revolving Fund	Accumulated surplus	Total
	Kshs	Kshs	Kshs
<b>Balance as at 1 July 2018</b>	412,081,700	11,051,643	423,133,343
Surplus/(deficit) for the period	-	15,510,506	15,510,506
Funds received during the year	151,101,100	-	151,101,100
<b>Balance as at 30 June 2019</b>	<b>563,182,800</b>	<b>26,562,149</b>	<b>589,744,949</b>
<b>Balance as at 1 July 2019</b>	563,182,800	26,562,149	589,744,949
Surplus/(deficit) for the period	-	10,185,429	10,185,429
Funds received during the year	148,106,200	-	148,106,200
<b>Balance as at 30 June 2020</b>	<b>711,289,000</b>	<b>36,747,578</b>	<b>748,036,578</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 09-08-2024 and signed by:



FCPA Nancy Gathungu, CBS  
 Auditor-General

ICPAK No: 4893



CPA Isaac Ng'ang'a  
 Deputy Auditor General -  
 Corporate Services

ICPAK No: 8292

16. Statement of Cash Flows for The Year Ended 30 June 2020

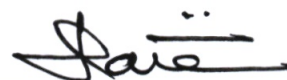
		2019/2020	2018/2019
	Notes	Kshs	Kshs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Transfers from OAG	5	148,106,200	151,101,100
Interest received from deposits	6	11,982,857	18,247,654
<b>Total receipts</b>		<b>160,089,057</b>	<b>169,348,754</b>
<b>Payments</b>			
Tax paid	8	(1,797,429)	(2,737,148)
<b>Total payments</b>		<b>(1,797,429)</b>	<b>(2,737,148)</b>
<b>Net cash flows from operating activities</b>		<b>158,291,629</b>	<b>166,611,606</b>
<b>Cash flows from investing activities</b>			
Proceeds from loan principal repayments	10	35,282,620	17,875,570
Loan disbursements paid out	10	(151,517,955)	(175,379,670)
<b>Net cash flows (used in) investing activities</b>		<b>(116,235,335)</b>	<b>(157,504,100)</b>
<b>Cash flows from financing activities</b>			
Proceeds from Revolving Fund receipts		-	-
Additional borrowings		-	-
Repayment of borrowings		-	-
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>		<b>42,056,294</b>	<b>9,107,506</b>
Cash and cash equivalents at 1st July	10	204,015,364	194,907,858
<b>Cash and cash equivalents at 30th June</b>	<b>10</b>	<b>246,071,658</b>	<b>204,015,364</b>

The notes set out on page 6 to 21 form an integral part of these Financial Statements.



FCPA Nancy Gathungu, CBS  
 Auditor-General

ICPAK No: 4893




CPA Isaac Ng'ang'a  
 Deputy Auditor General -  
 Corporate Services

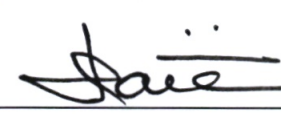
ICPAK No: 8292

17. Statement of Comparison of Budget and Actuals for The Year Ended 30 June 2020

	Original budget	Change	Final budget	Actual on comparable basis	Performance difference	% utilization
	2019/20	2019/20	2019/20	2019/20	2019/20	2019/20
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Transfers from OAG	148,106,200	-	148,106,200	148,106,200	-	100%
Interest income from Deposits	-	-	-	11,982,857	(11,982,857)	
Interest income from Loanees	-	-	-	13,843,878	(13,843,878)	
<b>Total income</b>	<b>148,106,200</b>	<b>-</b>	<b>148,106,200</b>	<b>173,932,935</b>	<b>(25,826,735)</b>	<b>117%</b>
<b>Expenses</b>						
Transfer to Revolving Fund	148,106,200		148,106,200	148,106,200	-	100%
Management cost	-	-	-	13,843,878	(13,843,878)	
<b>Total expenditure</b>	<b>148,106,200</b>	<b>-</b>	<b>148,106,200</b>	<b>161,950,078</b>	<b>(13,843,878)</b>	<b>109%</b>
Tax paid	-	-	-	1,797,429	(1,797,429)	
<b>Surplus for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,185,429</b>		

- Interest income from deposits was earned during the year on the available funds in the fixed deposit account held at the Housing Finance Company Ltd while interest from Loanees was earned from the monthly payroll deductions.
- Management cost is the interest recovered from Loanees at 3% and paid to Housing Finance Company Ltd as management expenses. This is done as per contract agreement.
- Tax paid expenses relate to the 15% withholding taxes being final tax that were charged on the interest earned from the fixed deposit account.

  
 FCPA Nancy Gathungu, CBS  
 Auditor-General

  
 CPA Isaac Ng'ang'a  
 Deputy Auditor General -  
 Corporate Services

ICPAK No: 4893

ICPAK No: 8292

## 18. Notes to Financial Statements

### 1. General Information

The Staff Mortgage Scheme is established and administered as provided under Section 24 (4)(5)(6)(7) of the PFM Act, 2012 and Section 127 (1) (2) of the PFM (National Government) Regulations, 2015. Further, the Scheme was established pursuant to SRC Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) dated 17 December, 2014. The Scheme is wholly owned by the Office of the Auditor-General and is domiciled in Kenya. The principal activity of the Scheme is to provide loans to the staff of the Office of the Auditor-General to purchase new or second-hand motor vehicles for enhanced mobility to and from work.

### 2. Statement of Compliance and Basis of Preparation

The Scheme's financial statements have been prepared in accordance with and comply with the PFM Act, 2012 and International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Scheme. 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.

### 3. Adoption of New and Revised Standards

- i. **New and amended standards and interpretations in issue effective in the year ended 30 June, 2020.**

Standard	Effective date and impact:
IPSAS 40: Public sector Combinations	<b>Applicable: 1<sup>st</sup> January, 2019:</b> The objective of IPSAS 40 is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about a public sector combination and its effects. IPSAS 40 establishes principles and requirements for how: <ol style="list-style-type: none"> <li>(a) A reporting entity classifies a public sector combination as an amalgamation or an acquisition;</li> </ol>

Standard	Effective date and impact:
	<p>(b) A resulting entity recognises and measures in its financial statements the identifiable assets received, the liabilities assumed and any controlling interest in an amalgamation;</p> <p>(c) A resulting entity recognises and measures components of net asset/equity and other adjustments recognised in an amalgamation;</p> <p>(d) An acquirer recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any controlling interest in the acquired operation;</p> <p>(e) An acquirer recognises and measures the goodwill acquired in, or the gain or loss arising from, an acquisition; and</p> <p>(f) A reporting entity determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a public sector combination.</p> <p>The standard does not have a material impact on the Scheme's financial statements.</p>

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

Standard	Effective date and impact:
<p><b>IPSAS 41:</b>            Financial Instruments</p>	<p><b>Applicable: 1<sup>st</sup> January, 2023:</b>            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. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul> <p>The Management is currently assessing the impact of the standard.</p>
<p><b>IPSAS 42:</b> Social Benefits</p>	<p><b>Applicable: 1<sup>st</sup> January, 2023</b></p>

Standard	Effective date and impact:
	<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.            (b) The key features of the operation of those social benefit Schemes; and            (c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.</p> <p>The standard is not expected to have a material impact on the Scheme's financial statements.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p><b>Applicable: 1st January, 2023:</b></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.            b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.            c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.            d) 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><b>Applicable 1<sup>st</sup> January, 2023</b></p> <ul style="list-style-type: none"> <li>• <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i></li> </ul> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> <li>• <i>IPSAS 39: Employee Benefits</i></li> </ul> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> <li>• <i>IPSAS 29: Financial instruments: Recognition and Measurement</i></li> </ul> <p>Standard no longer included in the 2023 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1<sup>st</sup> January 2023.</p>
<p><b>IPSAS 43:</b> Leases</p>	<p><b>Applicable 1<sup>st</sup> January, 2025</b></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</p>

Standard	Effective date and impact:
	<p>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>The standard is not expected to have a material impact on the Scheme's financial statements.</p>
<p><b>IPSAS 44:</b>            Non- Current            Assets Held for            Sale and            Discontinued            Operations</p>	<p><b>Applicable 1<sup>st</sup> January, 2025</b></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:            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.</p> <p>The standard is not expected to have a material impact on the Scheme's financial statements.</p>
<p><b>IPSAS 45:</b>            Property Plant            and Equipment</p>	<p><b>Applicable 1<sup>st</sup> January, 2025</b></p> <p>The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g. valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.</p> <p>The standard is not expected to have a material impact on the Scheme's financial statements.</p>
<p><b>IPSAS 46:</b>            Measurement</p>	<p><b>Applicable 1<sup>st</sup> January, 2025</b></p> <p>The objective of this standard was to improve measurement guidance across IPSAS by:</p> <ul style="list-style-type: none"> <li>i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used.</li> <li>ii. Clarifying transaction costs guidance to enhance consistency across IPSAS.</li> </ul>

Standard	Effective date and impact:
	<p>iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures.</p> <p>The standard also introduces a public sector specific measurement bases called the current operational value. The standard is not expected to have a material impact on the Scheme's financial statements.</p>
<p><b>IPSAS 47:</b> Revenue</p>	<p><b><i>Applicable 1<sup>st</sup> January, 2026</i></b></p> <p>This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non-exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions. The standard is not expected to have a material impact on the Scheme's financial statements.</p>
<p><b>IPSAS 48:</b> Transfer Expenses</p>	<p><b><i>Applicable 1<sup>st</sup> January, 2026</i></b></p> <p>The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers. The standard is not expected to have a material impact on the Scheme's financial statements.</p>
<p><b>IPSAS 49:</b> Retirement Benefit Plans</p>	<p><b><i>Applicable 1<sup>st</sup> January, 2026</i></b></p> <p>The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan. The standard is not expected to have a material impact on the Scheme's financial statements.</p>

**iii. Early Adoption of Standards**

The Scheme did not early – adopt any new or amended standards in the financial year.

#### **4. Significant Accounting Policies**

##### **Revenue Recognition**

###### **a) Revenue from Non-Exchange Transactions**

###### **Transfers from Office of the Auditor-General**

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 Scheme and can be measured reliably.

###### **b) Revenue from Exchange Transactions**

###### **Interest income**

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

##### **Budget Information**

The original budget for the year was approved by the National Assembly and subsequent revisions or additional appropriations are made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Scheme upon receiving the respective approvals in order to conclude the final budget.

The Scheme's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. A comparison of budget and actual amounts is then presented in the statement of comparison of budget and actual amounts.

## **Financial Instruments**

### **a) 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 Scheme 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.

#### **Impairment of Financial Assets**

The Scheme assesses at each reporting date whether there is objective evidence that a financial asset or a Fund of financial assets is impaired. Management then follows the procedure required by Section 145 of the PFM (National Government) Regulations, 2015. A financial asset of the Scheme 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 Scheme that can be reliably estimated. Evidence of impairment may include the following indicators:

- The loans receivable of the Scheme are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that loans receivable will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows

### **Changes in Accounting Policies and Estimates**

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

### **Related Parties**

The Scheme 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 Scheme, or vice-versa. Key management members are regarded as related parties and comprise of the Scheme Committee.

### **Cash and Cash Equivalents**

Cash and cash equivalents comprise 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 Housing Finance Company Limited at the end of the financial year.

### **Comparative Figures**

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

### **Events after the Reporting Period**

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

### **Ultimate and Holding Entity**

The Scheme is established by Section 84 of the Public Finance Management (PFM) Act 2012. Its ultimate parent is the Office of the Auditor-General.

### **Currency**

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

Notes to Financial Statements (continued)

#### 5. Transfers from the Office of the Auditor-General

Description	2019/2020	2018/2019
	Kshs	Kshs
Transfers from the Office of the Auditor-General	148,106,200	151,101,100
<b>Total</b>	<b>148,106,200</b>	<b>151,101,100</b>

During the year under review, transfers from the Office of the Auditor-General of Kshs.148,106,200 was received as follows:

Date of payments	2019/2020
	Kshs
20 Sep 2019	37,026,550
17 Oct 2019	37,026,550
16 Jan 2020	37,026,550
12 May 2020	37,026,550
<b>Total</b>	<b>148,106,200</b>

#### 6. Interest Income

Description	2019/2020	2018/2019
	Kshs	Kshs
Interest income earned on deposits	11,982,857	18,247,654
Interest income from Loanees	13,843,878	9,462,450
<b>Total interest income</b>	<b>25,826,735</b>	<b>27,710,104</b>

The Interest Income of Kshs.11,982,857 relates to the total interest earned on the capital sum deposited and available in the Scheme account at the Housing Finance Company Limited while Kshs.13,843,878 was interest charged on loans.

#### 7. Management Costs

Description	2019/2020	2018/2019
	Kshs	Kshs
Management expenses	13,843,878	9,462,450
<b>Total</b>	<b>13,843,878</b>	<b>9,462,450</b>

All the interest earned from the Loans that is charged @ 3% per annum is used to pay the Management expenses. During the year Management costs amounted to Kshs.13,843,878.

## 8. Tax Expenses

Description	2019/2020	2018/2019
	Kshs	Kshs.
Withholding Tax on interest income @15%	1,797,429	2,737,148
<b>Total</b>	<b>1,797,429</b>	<b>2,737,148</b>

Other expenses of Kshs.1,797,429 relate to the withholding tax on interest income charged at 15% of the gross interest earned.

## 9. Transfers to Revolving Fund

Description	2019/2020	2018/2019
	Kshs	Kshs
Amount transferred to Revolving Fund	148,106,200	151,101,100
<b>Total</b>	<b>148,106,200</b>	<b>151,101,100</b>

During the year, Kshs.148,106,200 was transferred to the Revolving Fund for disbursement to staff whose loans had been approved.

## 10. Cash and Cash Equivalents

Description	2019/2020	2018/2019
	Kshs	Kshs.
Opening cash and cash equivalent	204,015,364	194,907,858
Cash transferred from OAG	148,106,200	151,101,100
Loans issued	(151,517,955)	(175,379,670)
Principal loan repaid	35,282,620	17,875,570
Surplus ploughed back	10,185,429	15,510,506
<b>Total cash and cash equivalents</b>	<b>246,071,658</b>	<b>204,015,364</b>

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

Description		2019/2020	2018/2019
Financial institution	Account number	Kshs	Kshs.
<b>Fixed deposits account</b>			
Housing Finance Company Ltd	2054703401	255,507,992	211,267,208
<b>Total</b>		<b>255,507,992</b>	<b>211,267,208</b>

Notes to Financial Statements continued

## 11. Loan Receivables

Description	2019/2020	2018/2019
	Kshs	Kshs.
Opening balance	378,477,741	226,931,816
Loans Issued	151,517,955	175,379,670
Less Capital Loans Repaid	(37,467,110)	(23,833,745)
<b>Closing balance</b>	<b>492,528,586</b>	<b>378,477,741</b>

The loan receivables represent the mortgage capital balances for all the Loanees as at the end of the year under review.

### Movement in the Loans Issued

Description	2019/2020	2018/2019
	Number	Number
At start of year	59	33
Loans issued	23	26
Less loans repaid	(1)	-
<b>At end of year</b>	<b>81</b>	<b>59</b>

## 12. Due from Scheme Banker

Description	2019/2020	2018/2019
	Kshs.	Kshs
Opening balance	7,251,844	1,293,669
Increase/decrease during the year	2,184,490	5,958,174
<b>Closing balance</b>	<b>9,436,334</b>	<b>7,251,844</b>

These amounts represent the capital balances recovered but had not been ploughed back to the Scheme as at the end of the period under review.

## 13. Revolving Fund

Description	2019/2020	2018/2019
	Kshs	Kshs.
Opening balance	563,182,000	412,081,700
Transfers from OAG during the year	148,106,200	151,101,100
<b>Closing balance</b>	<b>711,289,000</b>	<b>563,182,800</b>

This relates to the amounts that were received from The National Treasury and then transferred from the Office of the Auditor-General to the Scheme over the years.

14. Accumulated Surplus

Description	2019/2020	2018/2019
	Kshs	Kshs.
Opening balance	26,562,149	11,051,643
Surplus for the year	10,185,429	15,510,506
<b>Closing balance</b>	<b>36,747,578</b>	<b>26,562,149</b>

This relates to the surplus amounts for the years since the Scheme's inception in 2016. The surplus is arrived at from the interest earned from the free funds deposit account and interest from Loanees less the management costs and 15% withholding taxes.

## Other Disclosures

### 15. Related Party Balances

#### a) Nature of Related Party Relationships

Entities and other parties related to the Scheme include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members. The Scheme is related to the following entities:

- a) Office of the Auditor-General.
- b) Scheme Committee.

#### b) Related Party Transactions

Description	2019/2020	2018/2019
	Kshs	Kshs.
Transfers from OAG	148,106,200	151,101,100
Loans issued to Scheme Committee members	-	17,387,860
Interest from Scheme Committee members	929,248	669,191
<b>Total</b>	<b>149,035,448</b>	<b>169,158,151</b>

Description	2019/2020	2018/2019
<b>Related Party Balances</b>	Kshs	Kshs
Due from Scheme Committee members	29,124,790	32,524,882
<b>Total</b>	<b>29,124,790</b>	<b>32,524,882</b>

### 16. Financial Risk Management

The Scheme's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Scheme'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 Scheme does not hedge any risks and has in place policies to ensure that credit is only extended to OAG staff members as per the established Scheme's guidelines. The Scheme's financial risk management objectives and policies are detailed below:

**a) Credit Risk**

The Scheme 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, loans receivable as well as other receivables.

The Management Committee assesses the credit quality of each staff, taking into account its financial position, past experience and other factors. Individual risk limits are based on internal and external assessment in accordance with the limits set by the Salaries and Remuneration Commission. The carrying amounts of financial assets recorded in the financial statements representing the Scheme's maximum exposure to credit risk without taking into account of the value of any collateral obtained is made up as follows:

Description	Total Amount (Kshs)	Fully performing (Kshs)	Past Due (Kshs)	Impaired (Kshs)
<b>At 30 June 2020</b>				
Loan Receivables	492,528,586	492,528,586	-	-
Due from Scheme banker	9,436,334	9,436,334		
Bank Balances	246,071,658	246,071,658	-	-
<b>Total</b>	<b>748,036,578</b>	<b>748,036,578</b>	-	-
<b>At 30 June 2019</b>				
Loan Receivables	378,477,741	378,477,741	-	-
Due from Scheme banker	7,251,844	7,251,844		
Bank Balances	204,015,364	204,015,364	-	-
<b>Total</b>	<b>589,744,949</b>	<b>589,744,949</b>	-	-

The Loanees under fully performing category are paying their debts. The credit risk associated with these receivables is minimal and the risk has been transferred to Housing Finance Company hence no impairment done.

**b) Market Risk**

The Office has put in place an internal audit function to assist it in assessing the risk faced by the Scheme on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls. Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Scheme's income or the value of its holding of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee which reviews and approves the detailed risk management policies. There has been no change to the Scheme's exposure to market risks or the manner in which it manages and measures the risk. Aside from interest rate covered below, the Scheme does not have material exposures to other market risks.

**c) Capital Risk Management**

The objective of the Scheme's capital risk management is to safeguard the Scheme's ability to continue as a going concern. Currently the Scheme has no borrowings. The Scheme capital structure comprises of the following:

Description	2019/2020	2018/2019
	Kshs.	Kshs.
Revolving Fund	711,289,000	563,182,800
Accumulated Surplus	36,747,578	26,562,149
<b>Total funds</b>	<b>748,036,578</b>	<b>589,744,949</b>

**d) Interest Rate Risk**

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

Other Information (continued)

### **Sensitivity Analysis**

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

Using the end of the year figures of interest from deposits of Kshs.11,982,857, one percentage point increase/decrease from the floating interest rates used would result to a decrease/increase Kshs.2,040,938 (2019: Kshs.2,335,700). A rate increase/ decrease of 5% would result in a decrease/increase in profit before tax of Kshs.10,204,690 (2019: Kshs.11,678,498).

### **17. Significant Judgments and Sources of Estimation Uncertainty**

The preparation of the Scheme'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. Management has not made any significant judgements or estimates.

19. Annexes

Annex I: Progress on Follow Up of Prior Year Auditor's Recommendations

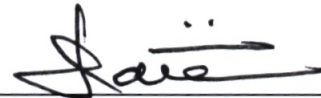
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
N/A					

The Scheme was established and became operational in the year 2015/16. The Scheme received an Unmodified Opinion for year 2016/17. Audit of the financial statements from year 2017/18 to year 2019/2020 has been conducted concurrently.



FCPA Nancy Gathungu, CBS  
Auditor-General

ICPAK No: 4893



CPA Isaac Ng'ang'a  
Deputy Auditor General -  
Corporate Services

ICPAK No: 8292

**Annex II: Reporting of Climate Relevant Expenditures**

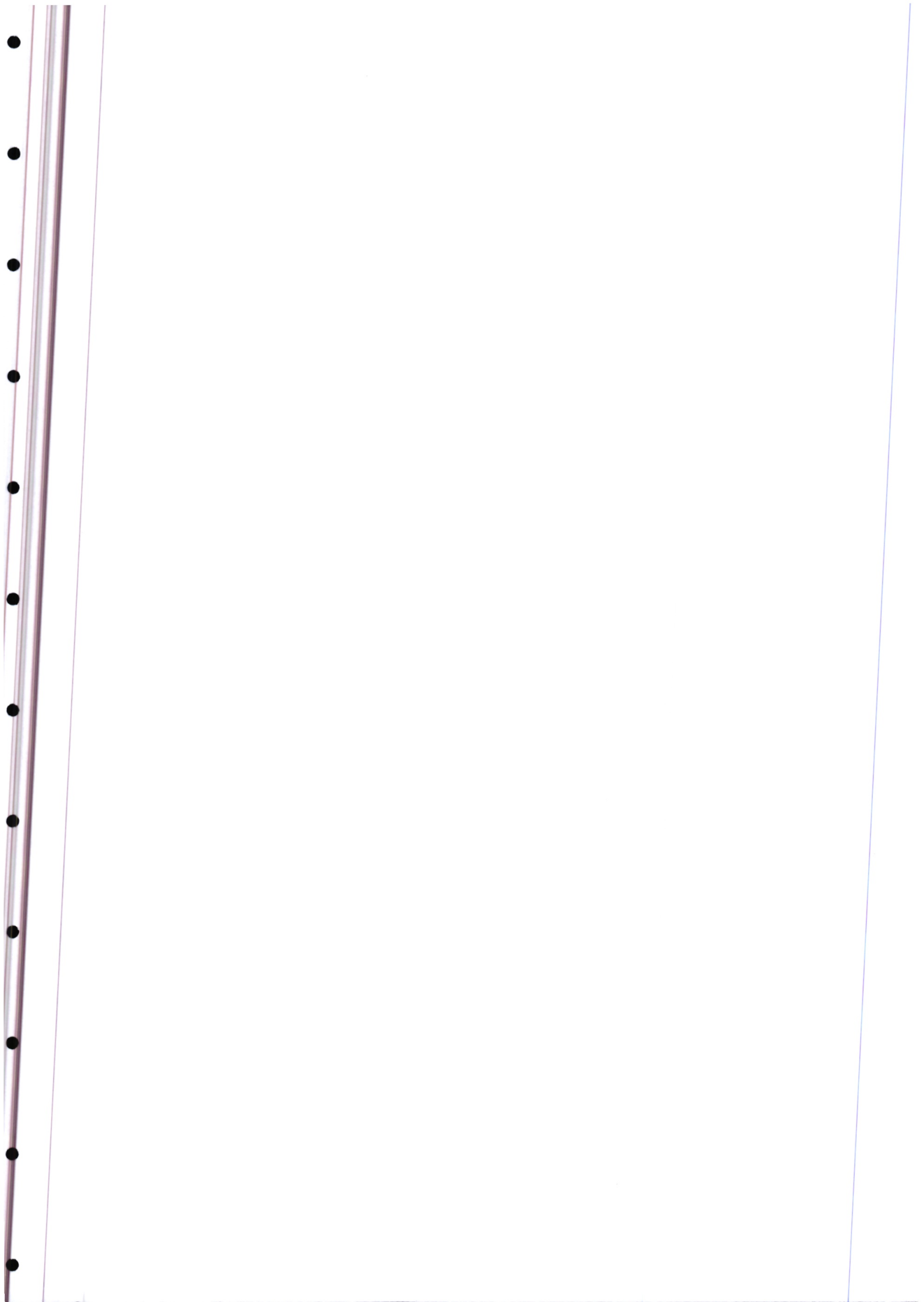
Project Name	Project Description	Project Objectives	Project Activities					Source of Funds	Implementing Partners
				Q 1	Q 2	Q 3	Q 4		
N/A									

The Scheme did not incur any climate related expenditure during the year under review.

**Annex III: Disaster Expenditure Reporting Template**

Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Kshs. )	Comments
N/A						

The Scheme did not incur any disaster related expenditure during the year under review.



## CONTACTS

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