

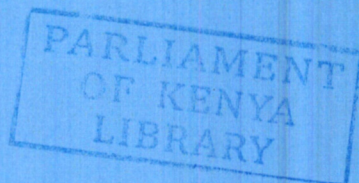
REPUBLIC OF KENYA



Enhancing Accountability

	PAPER NO.
DATE	31/5/2023
TABLED BY	Majority Leader
COMMITTEE	—
REPORT AT THE TABLE	Chania

REPORT



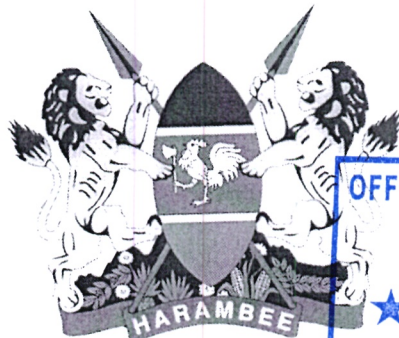
OF

THE AUDITOR-GENERAL

ON

**KERICHO COUNTY EXECUTIVE
STAFF MORTGAGE FUND**

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



OFFICE OF THE AUDITOR GENERAL
RECEIVED

★ 17 JAN 2023 ★

P. O. BOX 1188, KISUMU

COUNTY GOVERNMENT OF KERICHO
KERICHO COUNTY EXECUTIVE STAFF MORTGAGE SCHEME FUND

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

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

Kericho County Executive Staff Mortgage Scheme Fund
Annual Report and Financial Statements for the year ended June 30, 2022

Table of Content

1. Key Entity Information and Management	iii
2. Management Team	vi
3. Fund Chairperson's Report	viii
4. Report of The Fund Administrator	ix
5. Statement of Performance Against the County Fund's Predetermined Objectives	x
6. Corporate Governance Statement	xi
7. Management Discussion and Analysis	xii
9. Report of the Trustees	xiv
10. Statement of Management's Responsibilities	xv
11. Report of The Independent Auditor	xvi
12. Statement of Financial Performance For The Year Ended 30th June 2022	1
13. Statement of Financial Position As At 30 June 2022	2
14. Statement Of Changes in Net Assets for the year ended 30 th June 2022	3
15. Statement Of Cash Flows For The Year Ended 30 June 2022	4
16. Statement Of Comparison Of Budget And Actual Amounts For The Period	5
17. Notes to the Financial Statements	6
18. Progress On Follow Up Of Prior Year Auditor's Recommendations	22

1. Key Entity Information and Management

a) Background information

Kericho County Executive Staff Mortgage Scheme Fund is established by and derives its authority and accountability from Public Finance Management Act (*Kericho County Executive Staff Mortgage Scheme Fund*) on 20th January 2016. The Fund is wholly owned by the County Government of Kericho and is domiciled in Kenya.

The fund's objective is to and purpose shall be to provide loan for the purchase, development, renovation or repair of residential property by members of the County Executive Staff.

The fund principal activity is to operate individual accounts for each borrower which shall provide details of recoveries of the loan, charge on properties acquired through loans from the fund to protect the interest of the fund and act as custodian of such charges, the fund also disburse payments to newly approved borrowers after the necessary documentation is completed by the committee and pay all out going and issue demand notices where necessary to the staff though the officer administering the fund upon repayment of the loan, interest and other expenses which may be outstanding to discharge the charge and release of the security document to the borrower and upon default to call in the loan on behalf of the committee sell the charged property by public auction or private treaty in which event the fund shall meet any short fall between the loan outstanding and the proceeds of sale.

b) Principal Activities

The principal fund's objective is to and purpose shall be to provide loan for the purchase, development, renovation or repair of residential property by members of the County Executive Staff.

c) Board of Trustees/Fund Administration Committee

Ref	Name	Position
1	Chairman of Board	Hon. Shadrack Mutai
2	Chief Officer Finance	Leah Chumba
3	County Secretary	Joel Bett
4	Chief Officer Economic Planning	George Kirer
5	County Chief of Staff	Charles Kirui
6	County Physical Planner	Sylvia Inziani
7	County Payroll Manager	Leonard Ngetich
8	Fund Manager/ Administrator	Leah Chumba

d) Key Management

Ref	Name	Position
1	Chairman of Board	Hon. Shadrack Mutai
2	Chief Officer Finance	Leah Chumba
3	County Secretary	Joel Bett
4	Chief Officer Economic Planning	George Kirer
5	County Chief of Staff	Charles Kirui
6	County Physical Planner	Sylvia Inziani
7	County Payroll Manager	Leonard Ngetich
8	Fund Manager/ Administrator	Leah Chumba

e) Registered Offices

P.O. Box 112-20200
County headquarters Building
Kericho- Nakuru Highway
Kericho.

f) Fund Contacts

Telephone: (254) 052 2-21100
E-mail: info@kericho.go.ke
Website: www.kericho.go.ke

g) Fund Bankers

1. Kenya Commercial Bank
Kenyatta Road
Chai Square
PO BOX 00200
Kericho, Kenya
2. State Bank of Mauritius
Kenyatta Road
PO BOX
KERICHO, Kenya



h) Independent Auditors

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





i) Principal Legal Adviser

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

2. Management Team

Name	Details of qualifications and experience
	<p>Dr Shadrack Mutai was born on 1980 and holds Bachelor's in Medicine & Surgery. He has served in the County for over ten years as a Chief officer of Health and later CEC Finance and Economic Planning.</p>
	<p>Mr. Joel Bett was born in 1961. He holds a degree in human resource and has an experience of over thirty years in the public sector. He is the County Secretary and head of county public service and also a Committee Member of the Kericho County Executive Staff Mortgage Scheme Fund.</p>
	<p>CPA George K Kirer was born in 1981 and holds a master's degree in strategic management. He has an experience of over 10 years in the public sector. He is the current Ag Chief Officer of Finance and Ag Chief Officer Executive Office Of the Governor and Committee Member of the Kericho County Executive Staff Mortgage Scheme Fund.</p> <p>Executive Staff Mortgage Scheme Fund.</p>

Kericho County Executive Staff Mortgage Scheme Fund
Annual Report and Financial Statements for the year ended June 30, 2022

	<p>Mr. Charles Kirui was born in 1964, he holds a degree in education and has a vast experience in public sector he is county Chief of Staff and a Committee Member Kericho of the County Executive Staff Mortgage Scheme Fund.</p>
	<p>M/s Sylvia Inziani was born in 1983 she holds a degree in Urban and Regional Planning and has an experience of over ten years in public sector. She is the county physical planner and Committee member of the Kericho County Executive Staff Mortgage Scheme Fund.</p>
	<p>Hon Leonard K Ngetich was born in 1980 and holds degree in Accounting and he has an experience of over ten years in public sector. He is the county payroll manager and serves as a Committee Member of the Kericho County Executive Staff Mortgage Scheme Fund</p>
	<p>M/s Leah Chumba was born in 1968 she holds a Degree in economics and has an experience of over twenty years of service in public sector. She was the Chief Officer Roads and Public Works and Committee member of the Kericho County Executive Staff Mortgage Scheme Fund</p>

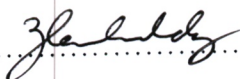
3. Fund Chairperson's Report

I put a foreword note by the Chairperson of the corporate governance body responsible for the Kericho County Executive Staff Mortgage Scheme Fund consists of seven committee members who supervise and manage the fund scheme. During the year the former CEC Dr Patrick Mutai resigned almost to the close of the Financial Statement to pursue other ambitions.

Effective corporate governance is critical to the proper functioning of the mortgage fund and the economy as a whole. Its primary objective of corporate governance should be safeguarding stakeholder interest on sustainability basis the regulation of the Fund has a keen interest in sound corporate governance as it is an essential element of safe and sound operation. The fund's performance during the year was fair.

There is an increased focus on risk and supporting framework and the committee should set the tone at the top and oversee management's role in fostering and maintain a sound corporate and risk culture.

The future outlook of the fund expects to have more allocations by the County Assembly in order to advance loans to more staff in the county executive.

Singed.....

Hon. Shadrack Mutai

4. Report of The Fund Administrator

The budget for the financial year 2021-2022 for the Kericho County Executive Staff Mortgage Scheme Fund was four million shillings. However, the same was not received during the Financial Year due to late disbursement of funds by the National Treasury.

Notable Challenges

I. Lack of funds

The scheme is expected to operate and discharge its mandate as stipulated in the Act but the biggest challenge is lack of adequate funds.

II. Key Risk Management strategies

Credit risk management is the practice of determining creditworthiness assessing new and returning customers for risk of late or non-payment. It's important that the Fund perform their due diligence to manage the risks that come with extending car loan credit.

Political risk is associated with the County's political instability which may adversely affect the value of the funds' assets and operation, the changes in the business environment will affect the funds operations.

Sign: 

CPA George K Kirer

5. Statement of Performance Against the County Fund’s Predetermined Objectives

Introduction

Section 164 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer when preparing financial statements of each County Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the county government entity’s performance against predetermined objectives.

Progress on attainment of Strategic development objectives

Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
Purchase, development, renovation or repair of residential property	To enhance the living standard of executive	Increased efficiency and job motivation	Increased uptake of mortgage loans by staff	Timely repayments of the mortgage loans issued to staff through deductions from the monthly pay

6. Corporate Governance Statement

In the just ended financial year, the fund administration committee meetings were attended by all the members as stipulated in the act.

There were quite a number of meetings held by the fund committee to review the progress of the fund and approve loan to one of the beneficiaries.

The remuneration of the fund is not established yet but since the members are employees of the County Executive, they draw salaries from their departments they serve however; sitting allowance is paid to the administration committee.

**Kericho County Executive Staff Mortgage Scheme Fund
Annual Report and Financial Statements for the year ended June 30, 2022**

7. Management Discussion and Analysis

The fund endeavours to adhere to all statutory requirements in the Kericho County Executive Staff Mortgage Loan Scheme Fund Regulations 2016. The major risk faced by the fund is the inadequate funding and budgetary allocations to ensure the fund attains its mandate and all interested staff are able to access mortgage loans.

The fund does not have any material arrears in statutory and financial obligations to any institution.

The operation performance of the fund during the year is as follows

	Kshs
Revenue From Non-Exchange Transactions	
Transfers From the County Government	-
	-
Revenue From Exchange Transactions	
Interest Income	5,299,591
Total Revenue	5,299,591
Expenses	
Use of Goods and Services	5,909,220
Total Expenses	5,909,220
Other Gains/Losses	
Surplus/(Deficit)for the Period	(699,929)

8. Environmental and Sustainability Reporting

Kericho County Executive Staff Mortgage Loan Scheme Fund exists to transform lives of Kericho County Executive staff. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy in putting staff as our first priority, delivering services, and improving operational excellence. Below is a brief highlight of our achievements;

1. Sustainability strategy and profile -

The board management seeks to make reference to sustainable efforts, broad trends in political and macroeconomic affecting sustainability priorities, reference to international best practices and key achievements and failure.

2. Environmental performance

The Fund seeks to advance staff mortgage provide loan for the purchase, development, renovation or repair of residential property. This is done in compliance with NEMA (National Environment Management Authority of Kenya) whose mandate is to supervise and coordinate environmental activities and serving as the main national body to implement environmental policies in all sectors within the country.

3. Employee welfare

The core mandate of Kericho County Executive Staff Mortgage Loan Scheme Fund is to improve the welfare of the Kericho County Executive staff by advancing mortgage loans to purchase, development, renovation or repair of residential properties of their choice. This is a reward system that seeks to improve the morale of staff.

4. Market place practices

A member of staff who, prior to the commencement of these Regulations had purchased, developed, expanded, renovated or repaired residential property stipulated under sub regulation (1) on loan from a financial institution, may apply for a loan under these Regulations to offset any remaining loan transferred from the financial institution to the loan scheme under these Regulations.

5. Community Engagements

During the financial year ended 30th June 2022, Kericho County Executive Staff Mortgage Loan Scheme Fund did not participate in any community engagement.

9. Report of the Trustees

The Trustees submit their report together with the audited financial statements for the year ended June 30, 2022 which show the state of the Fund affairs.

Principal activities

The principal activities of the Fund shall be to provide a loan scheme for the purchase, development, renovation or repair of residential properties for its staff.

Results

The results of the Fund for the year ended June 30, 2022 are set out on page 1 to 10.

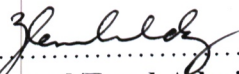
Trustees

The members of the Board of Trustees who served during the year are shown on page (vi).

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. Or a Certified Public Accountant nominated by the Auditor General to carry out the audit of the *entity* for the year/period ended June 30, 2022 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board


.....
Chair of the Board/Fund Administration Committee

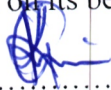
10. Statement of Management’s Responsibilities

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 Kericho County Subsidiary Legislation, (Kericho County Executive Mortgage Car Loan Scheme Fund) 2016 Legal Notice number 5, 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, 2022. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances. The Administrator of the 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 by Kericho County Subsidiary Legislation, (Kericho County Executive Staff Mortgage Loan Scheme Fund) 2016 Legal Notice number 5. The Administrator of the Fund is of the opinion that the Fund’s financial statements give a true and fair view of the state of Fund’s transactions during the financial year ended June 30, 2022, and of the Fund’s financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund’s financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Administrator of the 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 30th Sept 2022 and signed on its behalf by:

Sign 
CPA George K Kirer
Fund Administrator

REPUBLIC OF KENYA



Enhancing Accountability

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

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

REPORT OF THE AUDITOR-GENERAL ON KERICHO COUNTY EXECUTIVE STAFF MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kericho County Executive Staff Mortgage Fund set out on pages 1 to 22, which comprise the statement of financial position as at 30 June, 2022 and the statement of financial performance, statement of changes in net assets, statement of cash flows and 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kericho County Executive Staff Mortgage Fund as at June 30, 2022 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 do not comply with the Kericho County Executive Staff Mortgage Scheme Fund Regulations, 2016 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Anomalies in the Financial Statements

The annual report and financial statements have the following inaccuracies and instances of non-compliance with the prescribed reporting template for County Public Funds and Schemes, revised in June, 2022, contrary to Regulation 164(1) of the Public Finance Management Act, 2012.

- i. The statement of financial performance reflects deficit for the period of Kshs.609,929, while management discussion and analysis report shows a deficit of Kshs.699,929, resulting in an unexplained variance of Kshs.90,000.
- ii. The statement of financial position reflects accumulated deficit of Kshs.609,929 which differs with the recalculated surplus of Kshs.10,868,451, resulting in an unexplained variance of Kshs.11,478,380.
- iii. The statement of changes in net assets reflects revolving fund and accumulated deficit balances of Kshs.203,463,296 and Kshs.609,929 respectively. However, a recast of the amounts disclosed in the statement revealed revolving fund balance of Kshs.191,984,916 and accumulated surplus of Kshs.10,868,451, resulting to unexplained variances of Kshs.11,478,380 and Kshs.(11,478,380) respectively.
- iv. The statement of cash flows reflects proceeds from loan principal repayments amount of Kshs.20,837,414 which was not captured in the revolving fund. Further, the breakdown and details of the amount were not provided for audit. Similarly, the statement of cash flows reflects loan disbursements paid out amount of Kshs.32,800,000 which was not captured in the revolving fund.
- v. The statement of comparison of budget and actual amounts reflect interest income performance difference of Kshs.5,299,591, instead of the correct amount of Kshs.(5,299,591). Also, % utilization against interest income is erroneously indicated as 100.
- vi. Similarly, the statement of comparison of budget and actual amounts reflects total income performance difference of Kshs.5,299,591 instead of the correct amount of Kshs.(1,299,591), and % utilization of 100 instead of 132.
- vii. Further, the statement of comparison of budget and actual amounts reflect use of goods and services amount of Kshs.5,877,281, while the statement of financial performance reflects a corresponding amount of Kshs.5,909,220, resulting in a

variance of Kshs.31,939. However, no reconciliation is provided as a budget note to explain the variance as required.

- viii. In addition, the statement of comparison of budget and actual amounts does not have explanatory notes for non-receipt of the budgeted transfers from County Government amount of Kshs.4,000,000 and failure to budget for the interest income received of Kshs.5,299,591 and the use of goods and services expenditure Kshs.5,877,281 as required by the prescribed reporting template.
- ix. Note 6 to the financial statements on cash generated from operations reflects nil amount for deficit for the year, adjustment for interest income amount of Kshs.5,299,591 and net cash flows from operating activities amount of Kshs.5,299,591. However, both cash generated from operations and net cash flows from operating activities amounts should be Kshs.609,929 as interest income is part of operating activities.
- x. Other disclosures do not include financial risk management in respect to credit risk disclosure on performance of receivables from exchange transactions, and the gearing of the Fund under capital risk management.
- xi. The progress on follow-up of prior year auditor's recommendations does not show the management action on all the issues raised by the Auditor-General in the report for the previous year.

In the circumstances, the accuracy of the financial statements could not be confirmed. Also, Management was in breach of the law.

2. Lack of Trial Balance

The trial balance in support of the balances in the financial statements for the Fund was not provided for audit verification. This is contrary to paragraph 27 of the International Public Sector Accounting Standards (IPSAS) 1 which requires financial statements to present fairly the financial position, financial performance and cash flows of an entity.

In the circumstances, the Management contravened paragraph 27 of the International Public Sector Accounting Standards (IPSAS) 1 and thus the balances could not be confirmed.

3. Unexplained Variance in Interest Income

The statement of financial performance reflects interest income amount of Kshs.5,299,591, while the supporting ledger shows a corresponding amount of Kshs.5,435,964, resulting in an unexplained variance of Kshs.136,373.

In the circumstances, the accuracy and completeness of the interest income amount of Kshs.5,299,591 could not be confirmed.

4. Unsupported Administration Fees and Committee Allowances

The statement of financial performance reflects use of goods and services amount of Kshs.5,909,220, which as disclosed in Note 3 to the financial statements, includes administration fees of Kshs.2,970,200 and Committee allowances of Kshs.732,000, both

totalling to an amount of Kshs.3,702,200 whose supporting documentary evidence was not provided for audit.

In the circumstances, the accuracy, completeness and propriety of the expenditure of Kshs.3,702,200 could not be confirmed.

5. Misstatement of the Revolving Fund Balance

The statement of financial position reflects revolving fund balances of Kshs.203,463,296 and Kshs.174,874,000 as at 30 June, 2022 and 30 June, 2021 respectively, resulting in an unexplained or unsupported increase of Kshs.29,589,296. In addition, the statement of changes in net assets erroneously reflects an amount of Kshs.2,726,498 under revolving fund, described as transfers, which relates to the car loan funds. Further, the statement of changes in net assets does not reflect, under revolving fund, disbursements paid out during the year under review amounting to Kshs.30,300,000.

In the circumstances, the accuracy of the revolving fund balance of Kshs.203,463,296 could not be confirmed.

6. Misstatement of Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.3,223,265 which, as disclosed in Note 4 to the financial statements, includes Kenya Commercial Bank balance (as per bank statement) of Kshs.3,188,949, instead of the reconciled cash book balance of Kshs.48,983, resulting in a misstatement of Kshs.3,139,966.

In the circumstances, the accuracy and completeness of cash and cash equivalents of Kshs.3,223,265 could not be confirmed.

7. Unconfirmed Accuracy of Long-term Receivables from Exchange Transactions Balance

The statement of financial position reflect long-term receivables from exchange transactions balance of Kshs.67,650,521 which differs with the recalculated balance of Kshs.199,443,556, based on information provided below, resulting in an unreconciled variance of Kshs.131,793,035:

Details	Amount (Kshs.)
Loans Opening Balance at 1 July, 2021	179,243,743
Loans Principal Issued during the year	30,300,000
Total Interest due on Loans Issued during the year	16,036,818
Loan Interest Repayments during the year	(5,299,591)
Loan Principal Repayments during the year	(20,837,414)
Loan Balance at 30 June, 2022	199,443,556

Further, the balance of Kshs.67,650,521, according to records provided for audit, includes loan balances due from four (4) defaulters amounting to Kshs.1,994,419 whose comparative amount (outstanding balance as at 30 June, 2021) was Kshs.41,620,519, resulting to a decrease in outstanding amount by Kshs.39,625,100. However, evidence showing that the four loans were serviced during the year under review was not provided

for audit, casting doubt on their authenticity. Subsidiary ledgers for the individual debtors were also not provided for audit.

In the circumstances, the accuracy and completeness of the long-term receivables from exchange transactions balance of Kshs.67,650,521 could not be confirmed.

8. Lack of Approved Budget

The statement of comparison of budget and actual amounts reflects budget amount of Kshs.4,000,000 for both revenue and expenditure. However, the supporting approved budget document was not provided for audit.

In the circumstances, the regularity of the actual expenditure of Kshs.5,877,281 reflected in the statement could not be confirmed.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Unsupported Insurance Contract

The statement of financial performance reflects use of goods and services amount of Kshs.5,909,220 which, as disclosed in Note 3 to the financial statements, includes insurance costs of Kshs.2,054,707 relating to a contract with an insurance Company to provide insurance services for the County Mortgage Fund at a contract sum of Kshs.2,054,707. However, the contract agreement provided for audit does not specify the exact insurance services that were to be provided by the insurer. Further, the insurance policy documents were not provided for audit review.

In the circumstances, value for money of the expenditure of Kshs.2,054,707 could not be confirmed.

2. Unsecured Mortgage Loans

The statement of financial position reflects long-term receivables from exchange transactions balance of Kshs.67,650,521 which represents mortgage loans given to thirty-two (32) loan beneficiaries. Review of loan documents revealed that seven (7) title deeds provided for audit were not co-owned by the beneficiaries and the County Government of Kericho, while title deeds for the remaining twenty-five (25) beneficiaries were not provided for audit.

In addition, there were no documents held by the Administrator of the Fund to show that the funded properties were insured by the beneficiaries as required by Fund Regulations. Further, a member of staff who passed away in the month of February, 2021 had an outstanding loan balance of Kshs.15,009,873, but evidence of effort made by the Management to recover the outstanding balance from the insurance company or through alternative means was not provided for audit.

In the circumstances, the security of mortgage loans and the recoverability of the balance of Kshs.15,009,873 could not be confirmed.

3. Loans Disbursed Without the Requisite Documents

During the year under review, Management disbursed loans amounting to Kshs.30,300,000. However, review of the loan files revealed that four (4) beneficiaries who received loans amounting to Kshs.17,000,000 did not provide the required title deeds, insurance policy documents, and title search certificates to support the loans as follows:

- i. The first beneficiary, who was given a loan of Kshs.3,500,000 on 16 February, 2022, did not provide a valid title deed, sales agreement and official search documents attached for purchase of land for construction.
- ii. The second beneficiary, who was given a loan of Kshs.3,000,000 on 23 February, 2022, did not provide bill of quantities for the house to be constructed and sales agreement of the land on which the house was to be constructed.
- iii. The third beneficiary, who was given a loan of Kshs.3,000,000 on 16 March, 2022, did not provide a valid title deed. The title deed provided is dated 20 December, 2018 for land purchase funded in March, 2022.
- iv. The fourth beneficiary, who was given a loan of Kshs.7,500,000 on 16 June, 2022, did not provide a valid title deed. The title deed provided is dated 23 October, 2019 for land purchase funded in June, 2022.

In the circumstances, the regularity of the loan disbursements amounting to Kshs.17,000,000 could not be confirmed.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to 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

26 April, 2023

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

	Note	2021-2022	2020-2021
		Kshs	Kshs
Revenue From Non-Exchange Transactions			
Transfers From the County Government	1	-	-
Fines, Penalties and Other Levies		-	-
		-	-
Revenue From Exchange Transactions			
Interest Income	2	5,299,591	5,109,433
Other Income		-	-
Total Revenue		5,299,591	5,109,433
Expenses			
Use of Goods and Services	3	5,909,220	11,790
Total Expenses		5,909,220	11,790
Other Gains/Losses			
Gain/Loss on Disposal of Assets		-	-
Surplus/(Deficit) For The Period		(609,929)	5,097,643



.....
 Name: CPA George K Kirer
 Administrator of the Fund
 ICPAK M/No: 9499



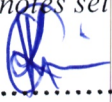
.....
 Name: CPA Willy Chirchir
 Fund Accountant
 ICPAK M/No: 17247

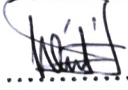
**Kericho County Executive Staff Mortgage Scheme Fund
Annual Report and Financial Statements for the year ended June 30, 2022**

13. Statement of Financial Position As At 30 June 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash Equivalents	4	3,223,265	11,980,419
Current Portion of Long- Term Receivables From Exchange Transactions		-	-
		3,223,265	11,980,419
Non-Current Assets			
Property, Plant and Equipment		-	-
Intangible Assets		-	-
Long Term Receivables from Exchange Transactions	5	67,650,521	179,243,743
		67,650,521	179,243,743
Total Assets		70,873,786	191,224,162
Liabilities			
Current Liabilities			
Trade and Other Payables from Exchange Transactions		-	-
Employee Benefit Obligations		-	-
		-	-
Non-Current Liabilities			
Non-Current Employee Benefit Obligation		-	-
Long Term Portion of Borrowings		-	-
		-	-
Total Liabilities			
Net Assets		70,873,786	191,224,162
Revolving Fund		203,463,296	173,874,000
Reserves		-	-
Accumulated Surplus/(Deficit)		(609,929)	11,478,380
Total Net Assets and Liabilities		202,853,367	191,224,162


(The notes set out on pages 1 to 5 form an integral part of these Financial Statements)


.....

 Name: CPA George K Kirer
 Administrator of the Fund
 ICPAK M/No: 9499

.....

 Name: CPA Willy Chirchir
 Fund Accountant
 ICPAK M/No: 17247

14. Statement Of Changes in Net Assets for the year ended 30th June 2022

	Revolving Fund	Revaluation Reserve	Accumulated surplus/(deficit)	Total
		Kshs	Kshs	Kshs
Balance As At 1 July 2020	166,989,000	-	6,650,737	173,639,737
Surplus/(Deficit) For the Period	-	-	5,097,643	5,097,643
Funds Received During the Year	6,885,000	-	-	6,885,000
Transfers	-	-	-	-
Revaluation Gain	-	-	-	-
Balance As At 30 June 2021	173,874,000	-	11,478,380	185,352,380
Balance As At 1 July 2021	173,874,000	-	11,478,380	185,352,380
Surplus/(Deficit) For the Period	-	-	(609,929)	(609,929)
Loan Principal Repayments	20,837,414	-	-	20,837,414
Transfers	(2,726,498)	-	-	(2,726,498)
Revaluation Gain	-	-	-	-
Balance As At 30 June 2022	203,463,296	-	(609,929)	202,853,367


.....
Name: CPA George K Kirer
Administrator of the Fund
ICPAK M/No: 9499


.....
Name: CPA Willy Chirchir
Fund Accountant
ICPAK M/No: 17247

15. Statement Of Cash Flows For The Year Ended 30 June 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
Cashflows from operating activities			
Receipts			
Transfers from the county government	1	-	-
Interest received	2	5,299,291	5,109,433
Receipts from other operating activities		-	-
Total receipts		5,299,291	5,109,433
Payments			
Use of Goods and Services	3	5,877,281	11,790
		(5,877,281)	(11,790)
Netcash flows from operating activities		(609,929)	5,097,643
Cash flows from investing activities			
Purchase of property, plant, equipment and Intangible assets			-
Proceeds from sale of property, plant& equipment			-
Proceeds from loan principal repayments		20,837,414	14,220,930
Loan disbursements paid out		(32,800,000)	(30,361,790)
Netcash flows used in investing activities		(11,962,586)	(16,140,860)
Cashflows from financing activities			
Proceeds from revolving fund receipts		-	-
Additional borrowings		-	-
Repayment of borrowings		-	-
Netcash flows used in financing activities		-	-
Net increase/(decrease)in cash & cash Equivalents		(12,572,515)	(5,809,792.77)
Cashandcashequivalentsat1july	4	11,980,419	17,790,212
Cashandcashequivalentsat30 June	4	3,223,265	11,980,419

.....
Name: CPA George K Kirer
Administrator of the Fund
ICPAK M/No: 9499

.....
Name: CPA Willy Chirchir
Fund Accountant
ICPAK M/No: 17247

Kericho County Executive Staff Mortgage Fund
Annual Report and Financial Statements for the year ended June 30, 2022

16. Statement Of Comparison Of Budget And Actual Amounts For The Period

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% Utilization
	2022	2022	2022	2022	2022	2022
	Kshs	Kshs	Kshs	Kshs	Kshs	
Revenue						
Public Contributions And Donations	-	-	-	-	-	
Transfers From County Govt.	4,000,000	-	4,000,000	-	-	0
Interest Income	-	-	-	5,299,291	5,299,291	100
Other Income	-	-	-	-	-	0
Total Income	4,000,000		4,000,000	5,299,291	5,299,291	100
Expenses						
Use of Goods and Services	-	-	-	5,877,281	(5,877,281)	100
Total Expenditure	4,000,000	-	4,000,000	5,877,281	(5,877,281)	100
Surplus/Deficit For The Period	-		-	(5,877,281)	(5,877,281)	



.....
Name: CPA George K Kirer
Administrator of the Fund
ICPAK M/No: 9499



.....
Name: CPA Willy Chirchir
Fund Accountant
ICPAK M/No: 17247

17. Notes to the Financial Statements

1. General Information

Kericho County Executive Staff Mortgage Scheme Fund is established by and derives its authority and accountability from Kericho County Executive Staff Mortgage Scheme Fund) 2016 Legal Notice number 5. The entity is wholly owned by the Kericho County Government and is domiciled in Kenya. The entity's principal activity is to purchase, development, renovation or repair of residential property by members of the Kericho County Executive Staff.

2. 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.

3. Adoption of new and revised standards

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2022

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

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

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

Kericho County Executive Staff Mortgage Fund
Annual Report and Financial Statements for the year ended June 30, 2022

Standard	Effective date and impact:
Benefits	<p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the Entity;</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.</p> <p><i>(State the impact of the standard to the Entity if relevant)</i></p>
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<p>Applicable: 1st January 2023:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> <p><i>(State the impact of the standard to the Entity if relevant)</i></p>
Other improvements to IPSAS	<p><i>Applicable 1st January 2023</i></p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> • <i>IPSAS 39: Employee Benefits</i> <p>Now deletes the term composite social security benefits as it is no</p>

Kericho County Executive Staff Mortgage Fund
Annual Report and Financial Statements for the year ended June 30, 2022

Standard	Effective date and impact:
	<p>longer defined in IPSAS.</p> <ul style="list-style-type: none"> • IPSAS 29: Financial instruments: Recognition and Measurement <p>Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.</p> <p><i>State the impact of the standard to the Entity if relevant</i></p>
IPSAS 43	<p><i>Applicable 1st January 2025</i></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p> <p><i>State the impact of the standard to the Entity if relevant</i></p>
IPSAS 44: Non-Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> <p><i>State the impact of the standard to the Entity if relevant</i></p>

(iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2022

4. Significant Accounting Policies

a) Revenue recognition

i. Revenue from non-exchange transactions

Transfers from other government entities

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

ii. Revenue from exchange transactions

Interest income

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

b) Budget information

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actual as per the statement of financial performance.

c) 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.

d) Intangible Assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite.

e) Financial instruments

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Summary Of Significant Accounting Policies (Continued)

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Summary Of Significant Accounting Policies (Continued)

f) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

Kericho County Executive Staff Mortgage Fund
Annual Report and Financial Statements for the year ended June 30, 2022

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

g) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

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

Summary Of Significant Accounting Policies (Continued)

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

h) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. *Entity to state the reserves maintained and appropriate policies adopted.*

i) 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.

j) Employee benefits – Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

k) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

Summary Of Significant Accounting Policies (Continued)

l) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

m) Related parties

The County Executive of Kericho is a related party of Kericho County Executive Staff Car Loan Scheme Fund since the fund obtains allocations from the County Executive and the fund also advances car loans to employees of Kericho County Executive.

n) 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.

o) Comparative figures

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

p) Events after the reporting period

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

q) Ultimate and Holding Entity

The entity is a County Public Fund established by of Kericho County Executive Staff Car Loan Scheme Fund Regulations 2016. Its ultimate parent is the County Government of Kericho.

r) Currency

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

Summary Of Significant Accounting Policies (Continued)

5. Significant judgments and sources of estimation uncertainty

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

State all judgements, estimates and assumptions made e.g.

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

b) Useful lives and residual values

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

- 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

c) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 18.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

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. The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors and senior managers.

s) 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.

t) Comparative figures

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

u) Events after the reporting period

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

v) Currency

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

Summary Of Significant Accounting Policies (Continued)

6. Notes to The Financial Statements

1. Transfers from County Government

Description	2021-2022	2020-2021
	Kshs	Kshs
Transfers From County Govt. –Operations	0	-
Payments By County On Behalf Of The Entity	0	-
Total	0	-

2. Interest income

Description	2021-2022	2020-2021
	Kshs	Kshs
Interest Income From Mortgage Loans	5,299,591	4,405,675
Interest Income From Investments	0	-
Interest Income On Bank Deposits	0	-
Total Interest Income	5,299,291	4,405,675

3. Use of Goods and Services

Description	2021/22	2020/21
	Kshs.	Kshs.
Administration Fees	2,970,200	-
Training Expense	144,000	-
Committee Allowances	732,000	-
Bank Charges	8,313	11,970
Insurance Costs	2,054,707	-
Total	5,909,220	11,970

4. Cash and cash equivalents

		2021-2022	2020-2021
Financial Institution	Account number	Kshs	Kshs
a) Current Account			
Kenya Commercial Bank	01216449678	3,188,949	5,851,739
SBM1	0472328991001	0	3,805

Kericho County Executive Staff Mortgage Fund
Annual Report and Financial Statements for the year ended June 30, 2022

SBM2	0472328991002	34,316	6,124,875
Sub- Total		3,223,265	11,980,419
Grand Total		3,223,265	11,980,419

5. Receivables from exchange transactions

Description	2021-2022	2020-2021
	Kshs	Kshs
Current Receivables		
Interest Receivable	-	-
Current Loan Repayments Due	-	-
Other Exchange Debtors	-	-
Less: Impairment Allowance	-	-
Total Current Receivables	-	-
Non-Current Receivables		
Long Term Loan Repayments Due	67,650,721	179,243,743
Total Non- Current Receivables	67,650,721	179,243,743
Total Receivables From Exchange Transactions	67,650,721	179,243,743

Kericho County Executive Staff Mortgage Fund
Annual Report and Financial Statements for the year ended June 30, 2022

Notes To The Financial Statements (Continued)

6. Cash generated from operations

	2021-2022	2020-2021
	Kshs	Kshs
Surplus/ (Deficit) For the Year Before Tax	-	-
Adjusted For:		
Depreciation	-	-
Amortisation	-	-
Gains/ Losses On Disposal Of Assets	-	-
Interest Income	5,299,591	5,109,433
Finance Cost	-	-
Working Capital Adjustments		
Increase In Inventory	-	-
Increase In Receivables	-	-
Increase In Payables	-	-
Net Cash Flow From Operating Activities	5,299,591	5,109,433

Other Disclosures

7. Related party balances

a) Nature of related party relationships

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

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

b) Related party transactions

	2021-2022	2020-2021
	Kshs	Kshs
Transfers From Related Parties'	-	-
Transfers To Related Parties	2,726,498	-

c) Due to related parties

	2021-2022	2020-2021
	Kshs	Kshs
Due To Parent Ministry	-	-
Due To County Government Related Parties	-	-
Due To Key Management Personnel	-	-
Total	-	-

**Kericho County Executive Staff Mortgage Fund
Annual Report and Financial Statements for the year ended June 30, 2022**

18. Progress On Follow Up Of Prior Year Auditor's Recommendations

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
OAG/KSM/2020-2021-2-01-0035-20/KCESLF/5	Cash and Cash Equivalent	To Revise Financial Statement	Resolved	December 2022
OAG/KSM/2020-2021-2-01-0035-20/KCESLF/5	Misstatement of Interest Income	To Revise Financial Statement	Resolved	December 2022