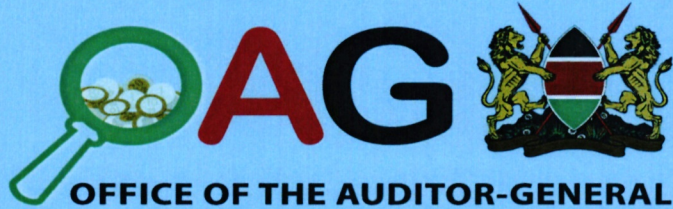


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Enhancing Accountability



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REPORT	
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TABLED BY:	LON
THE AUDITOR-GENERAL	
<i>Hallwactuliman</i>	

THE AUDITOR-GENERAL

ON

**MICRO FINANCE SECTOR SUPPORT
CREDIT PROJECT (CREDIT NO. CKE 3004 01E
AND CKE 6010 01E)**

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

THE NATIONAL TREASURY



*Micro Finance Sector support Credit
Reports and Financial Statements
For the financial year ended June 30, 2020*

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: The project's official name is Micro Finance Sector Support Credit.

Objective: The key objective of the project is to promote the financial deepening in the banking sector in order to ensure access to credit by the non-banking population of Kenya.

Address: The project headquarters offices are in Nairobi City, Nairobi County, Kenya.

The address of its registered office is:

Financial and Sectorial Department
Directorate of Budget, Fiscal and Economic Affairs
The National Treasury,
P.O. Box 30007 00100
Nairobi – Kenya
Tel: +254 20 2252299

The project has no branches.

Contacts: The following are the project contacts

Telephone: (254) 20 2252299
E-mail: info@treasury.go.ke
Website: www.treasury.go.ke

1.2 Project Information

Project Start Date:	The project start date is Loan - CKE3004 01 E on 25.05.05 Grant - CKE6010 01 E on 21.09.07
Project End Date:	The project end date is CKE3004 01 E on 25.06.12, Extension up to 31.12.14 CKE6010 01 E on 31.12.10, Extension up to 31.12.14.
Project Manager:	The project manager is Mr. Albert K. Mwenda Director General, Directorate of Budget, Fiscal and Economic Affairs
Project Sponsor:	The project sponsor is Agence Francaise de Developpement (AFD)

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Financial Sectoral Affairs Department, Directorate of Budget, Fiscal and Economic Affairs, the National Treasury.
Project number	Loan - Credit No.CKE 3004 01E; Grant - No.CKE 6010 01E

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Strategic goals of the project	The strategic goal of the project was to contribute to the reduction of poverty in the rural areas of Kenya
Achievement of strategic goal	<p>The project management aims to achieve the goals through the following means:</p> <ul style="list-style-type: none"> (i) Through a tiered approach in which the GoK lends to wholesalers (initially three banks) and in turn they lend to second tier MFIs/SACCOs who finally reach out to the Kenyan population excluded from the traditional commercial banking services (ii) Through a partnership with three Wholesaler financial institutions and two capacity building operators in partnership with the Government

<p>Other important background information of the project</p>	<p>Under this Programme, the Government is making available the proceeds of the facility in two components:</p> <p>i) A loan of 6.8 Million Euros (Approximately Kshs741.2 million):</p> <p>Each wholesaler was to borrow 2.27 Million Euros at 6% (Approximately Kshs247 million). Under this first component (<u>The Loan refinancing</u>), a two tier credit scheme was developed where The Government entered into a subsidiary agreement with three wholesalers i.e. <i>1) Equity bank, 2) Cooperative bank and 3) K-Rep bank</i>, to extend credit to retail Microfinance Institutions (MFIs) and SACCOs. Each wholesaler is eligible to an initial borrowing from the Government up to a maximum of Euro 2, 270,000 (Kshs247 m) for a period of four years. In turn the wholesalers lend to qualifying MFIs and SACCOS. The second tier institutions (MFIs and SACCOS) are expected to extend credit to the final beneficiaries who are the non-banking population, thus enhancing credit delivery and access in Kenya.</p> <p>ii) A Grant of 3.2 million Euros. (Approximately Kshs348.8 Million)</p> <p>The second component of the program is a grant of 3.2 Million Euros intended to enhance capacity of all the institutions in the chain of delivery as follows:</p> <ul style="list-style-type: none"> • At the level of the wholesalers, each institution is entitled to a maximum of Euro 200,000 grant (EU 600,000 (Kshs65.4m) Total) from the facility for capacity building to enable them deliver on the program goals. • An additional Euro 2.3 million (Kshs250.7m) is designated for the capacity building of the second tier microfinance organizations managed by Financial Sector deepening (FSD) Trust Kenya whose trustee is KPMG and a second capacity building operator to be recruited to focus on the lower end of the SACCO sector. • A sum of 100,000 Euro (Kshs10.9m) is dedicated to capacity building in the Microfinance Unit within the Ministry of Finance for management of the program. <p>The balance of Euro 200,000 (Kshs21.8m) is expected to be used for Audit and impact Assessment of the program. -----</p>
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Current situation that the project was formed to intervene	The project was formed to intervene in promotion of financial deepening in the banking sector in order to ensure access to credit by non-banking population of Kenya.
Project duration	The Project started on 25 May 2005 expected to run until 31 December 2014 as per the last amendment.

1.4 Bankers

Central Bank of Kenya
Nairobi - Kenya

1.5 Auditors

The project is audited by the Auditor General-Kenya

Office of the Auditor General-Kenya
Anniversary Towers, University Way
P.O. Box 30084 00100
Nairobi – Kenya
Tel: +254 20342330

1.6 Roles and Responsibilities

List the different people who will be working on the project. This list would include the project manager and all the key stakeholders who will be involved with the project. Also, record their role, their positions, and their contact information.

Names	Title designation	Key qualification	Responsibilities
Julius M. Muia, PhD, EBS	Principal Secretary	Accounting Officer	Accounting Officer
Albert K. Mwenda, HSC	Director General Budget Fiscal and economic affairs	Director General Budget Fiscal and economic affairs	Project Manager
Michael C. Mukanzi	Principal Accountant	Accountant	Project Accountant

1.7 Funding summary

The Project is for duration of xxx years from 20xx to 20xx with an approved budget of US\$ xxxx (use donor currency) equivalent to KShs xxxx as highlighted in the table below:

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Below is the funding summary:

Source of funds	Donor Commitment-		Amount received to date – (dd mm 20xx)		Undrawn balance to date (dd mm 20xx)	
	Donor currency	KShs	Donor currency	KShs	Donor currency	KShs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Grant						
AFD	600,000	72,000,000	600,000	72,000,000	NIL	NIL
(ii) Loan						
AFD	10,000,000	1,200,000,000	10,000,000	1,200,000,000	NIL	NIL
(iii) Counterpart funds						
W/Saler Financing	250,000	30,000,000	250,000	30,000,000	NIL	NIL
2 nd Tier Financing	230,000	27,600,000	230,000	27,600,000	NIL	NIL
Total	10,480,000	1,329,600,000	10,480,000	1,329,600,000	NIL	NIL

1.8 Summary of Overall Project Performance:

Table 2 below shows the recovery performance under the MFSSC project as at December 31 2014 as reported by the wholesalers in their last quarterly reports submitted to the National Treasury. During the period under review, all the funds for the wholesalers were already fully disbursed except the 10,000 Euro that was left in special account. The recovery to the national Treasury was on schedule for each of the participating wholesalers. It was later noted by Cooperative bank that the repayment made at the end of December 2014 was returned as the Government had closed the designated account. They subsequently wrote a letter to National Treasury to give them the correct account to remit the returned funds.

Table 2: Loan disbursement and recoveries by NT as at end of December 2014 in Kshs

	Disbursement	Disbursed To Wholesalers	cumulative Interest paid	Principle Recoveries	Outstanding Balance to NT
Coop Bank	Sub Total	241,000,000	40,686,429	241,000,000	0
Equity Bank	Sub Total	212,000,000	27,837,435	212,000,000	0
K-Rep Bank	Sub Total	241,000,000	31,253,417	241,000,000	0
	Grand Total	694,000,000	99,777,281	694,000,000	0

Source: Data from quarterly report from Wholesalers Dec 2014

Wholesaler Financing of Second tier Institutions

Table 3 below highlight the loan disbursements to the second tier institutions from the wholesalers for

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on-lending to the final beneficiaries of the programme. Equity Bank has disbursed Kshs 410,942,364 to SACCOs and MFIs that qualify for funding under the programme. K-Rep Bank has picked up and managed to disburse a total of Kshs 267, 316,000 to 23 second tier institutions making its percentage disbursement to 119%. K-Rep Bank has now fulfilled the conditions of the extended contract by fully utilizing the total loan extended to it by the Government of Kenya. Cooperative Bank however has disbursed 100% of funds to the final second tier clients which is their core business. The overall disbursement by the three wholesalers to the target group stands at 132% which means the Government funds have leveraged commercial funding from the wholesalers to benefit the target group. The programme therefore stands a good chance of achieving its development objective.

Disbursements to Second Tier institutions

	Disbursement	Disbursed to date	Undisbursed	Usage	Balance
Bank	From GoK to Wholesaler	to ultimate clients	Funds	On-lent	Undisbursed
	Amount	Amount	Amount	%age	%age
Coop Bank	241,000,000	241,000,000	0	100%	0.0%
Equity Bank SACCOs	212,000,000	409,379,290	0	192%	0.0%
Equity Bank MFI lending	-	1,563,074	0	>100%	0%
K-Rep bank	241,000,000	287,027,000	0	119%	0%
Total	694,000,000	919,258,364	0	132%	0%

Source: Extracted from Quarterly Wholesaler reports--Dec 2014.

Capacity Building for wholesalers

Table 4 below shows the utilization of the capacity building funds for the three wholesalers. Equity Bank contributed a matching of 149 % of the total funds received from the Government of Kenya and AFD for wholesaler capacity building. This is followed by K-Rep Bank that contributed 69%of the total funds utilized for capacity building above the agreed target of 30%. K-Rep identified the following areas as priority for training, project appraisal, planning, risk underwriting and secure effective marketing. Cooperative bank contributed a matching fund of exactly 30% of the total sum received from AFD/GoK as per stipulated agreement. Cooperative Bank staff were trained on project management, credit skills, Sacco management, and applied Microfinance courses offered by the School of applied microfinance. The remaining grant on this sub component was cancelled due to the delay in audit for verification of expenditures.

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Table 4: Capacity Building for wholesalers

Capacity Building for Wholesalers	EQUITY BANK	COOP BANK	K-REP BANK
	KES	KES	KES
Amount received	11,500,000.00	9,790,000	9,920,000
Amount spent up to Dec 2014 cumulative. (Including 30% from wholesalers)	28,685,000	12,727,000	16,777,653
Balance of CB funds unutilized	0	0	0
Wholesaler Contribution as% of AFD funds	149%	30%	69%
Number of staff Trained	260	189	289

Source: From Quarterly reports Dec 2013

Capacity Building for second tier organizations by FSD

The Government entered into a subsidiary grant agreement with FSD Kenya on 4th December 2007 to make available a Grant equivalent to two million three hundred thousand Euros (€ 2,300,000) to FSD to implement the second tier MFIs and Sacco's capacity building component of the Microfinance Sector Support Credit programme.

Following the two amendments of the CFA, the Parties agreed to enter into an amendment to reduce the funds under the PMU Grant contract to Euro 1,150,000 for capacity building of SACCO sector. The eligible expenditure by December 31, 2014 is stated in table 4.4 below.

Table 5: FSD Kenya capacity building funds expenditures by year and category.

SACCO	2009	2010	2011	2012	2013	2014	Total Disb in US \$	Expense in Euro
Sukari SACCO	9,973	0	0	0	0	0	9,973	9,235
Kirinyaga SACCO	0	11,053	172,043	0	0	0	183,096	169,534
Meru SACCO	0	6,635	50,698	0	0	0	57,333	53,086
Kilifi SACCO	0	0	0	0	13,593	0	13,593	12,586
Reforms	0	0	46,386	199,295	152,802	323,267	721,751	668,288
FSD Admin	0	0	0	56,953	14,194	3,374	74,520	69,000
Total	9,973	17,688	269,128	256,248	180,589	326,641	1,060,267	981,729

Source: FSD Kenya Report Dec 2014

Table 6: Summary of AFD Funds Expenses and Balances

Item Description	Euros
Total AFD Grant (Euros)	1,150,000
Add back Interest earned	85,283
Exchange gain	81,146

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Total AFD Funds available	1,316,429
Total spent	981,729
Expected funds balance - Euros	334,700
Exchange rate 1 US\$ = Kshs	92.1861
Exchange rate 1 Euro = US \$	1.0800

Source FSD Kenya report Dec 2014

Progress: All the SACCO reforms project activities were concluded by December 2014. A total of 184 out of the 215 DTSs had been licensed by deadline (June 2014) for the Deposit-taking SACCOs to transition to full regulatory compliance as provided for under the SACCO Societies the Act. However based on preliminary findings of the SACCO sector analysis commissioned by FSD, only 35% of the 110 licensed in 2012 were consistently reporting to SASRA by end of 2013 and had met the capital adequacy requirements.

Following the expiry of the transition period, SASRA issued a public notice to DTS not meeting the regulatory requirements to cease deposit-taking and two SACCOs have since complied. However lobbying continues for extension of the transition period but SASRA has so far held on to its position. To address the challenges in the implementation of the regulatory framework, SASRA proposed amendments to the SACCO Act in close consultation with stakeholders and parent Ministry to look at policy options that would balance the interests of stakeholders and ensure systemic stability.

Preliminary findings from the SACCO sector analysis commissioned by FSD Kenya indicate the need for further support to SASRA in addressing the challenges. The suggested support includes both help in policy formulation and strengthening the capacity of SASRA. Initially these areas were expected to be supported under the DFD/GoK/World Bank Financial Sector Legal Support Technical Assistance Programme (FLSTAP). However, this was not accomplished due to slow implementation of the SACCO reforms project until FLSTAP was closed.

The AFD project extension ended in December 2014. As per table above the total budget expenditure allocated to SACCO Reforms programme from AFD funds amounts to Euro 981,729 leaving a balance of Euro 334,700 to be refunded back to AFD at the end of the programme.

Second Capacity Building operator (Microde Consult) Implementation

The Government of Kenya entered into an agreement with MICRODE CONSULT on the 16th January 2014, to provide technical assistance to the Microfinance Unit (MFU) under the Department of Economic Affairs within the National Treasury in the implementation of the capacity building component for the smaller second tier MFIs and SACCOs to enhance their absorptive capacity for credit and develop their ability to handle other financial products for the poor.

The assignment was implemented in three phases which include an inception phase, the capacity and training needs assessment phase and the actual delivery of capacity building phase. These were to be done in collaboration with the Wholesales under the supervision of the MFU. In Phase 1 an Inception Report was produced outlining all activities to be undertaken, Phase 2 a Capacity and Training Needs

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Assessment (CTNA) of SACCOs, MFIs and Investment Groups report was produced which detailed the capacity gaps identified and the intended solutions to address the capacity and /or training gaps with proposed detailed activities and Phase 3 dealt with Delivery of Training as well as Monitoring and Evaluation of the Training. Below is a summary of the achievements of this component.

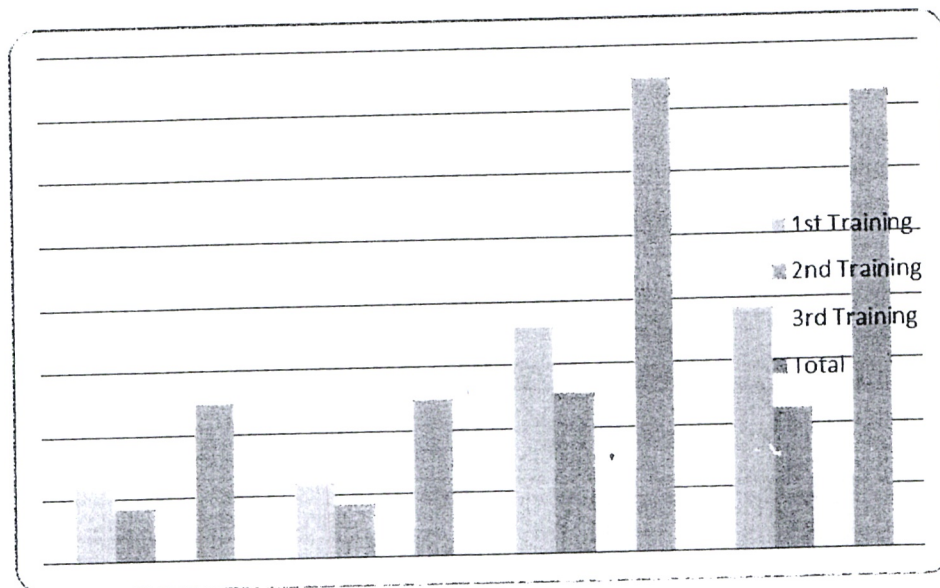
Summary of Institutions and participants Trained

2. Table 7: The Overall achievement of Training for Institutions vs the Target

TRAINING	GROUPS		PARTICIPANTS		DATE
	Target	Achieved	Target	Achieved	
1 st Training	24	24	72	77	8 th Sep to 10 th Oct 2014
2 nd Training	17	17	51	45	27 th October to 14 th November 2014
3 rd Training	9	9	27	23	15 th to 19 th Dec 2014
Total	50	50	150	145	

Table 7 above and Chart 1 below present the targets and overall achievement of the capacity building programme for institutions and participants against the plans. The capacity building programme planned to reach 50 institutions and 150 participants with capacity building training in areas that had been identified in CTNA. The target for institutions was fully achieved resulting into contract target achievement of **100%** under this category while the number of participants achieved was **97%** which is excellent. This achievement is attributable to the active consultation and collaboration with the wholesale banks that benefited from the refinancing scheme and close monitoring and technical support from the TA of Microfinance Unit under the National Treasury. The programme also succeeded because of the interest and the willingness of the target institutions due to close matching of their needs to the training offered.

Chart 1: The Overall achievement of Training for Institutions Vs the Target



Summary of Institutions and participants Trained by wholesalers

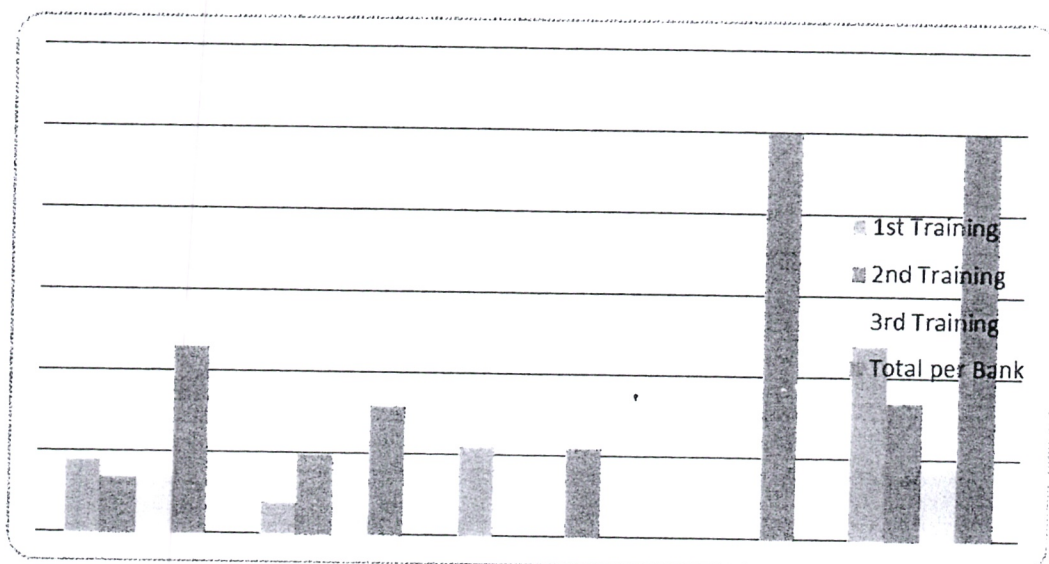
The table 8 below presents the results of the capacity building programme by clients of the respective wholesaler banks. Cooperative Bank had the highest number of participating institutions trained, followed by Equity Bank and K-Rep Bank. This is because Cooperative Bank has had a long time relationship with SACCOs as they form the basis of their core business strategy. This explains why it had the highest number of participating institutions trained. K-Rep Bank on the other hand is youngest bank of the three participating banks and with a comparatively smaller SACCO customer base which explains why it had the least number of participating institutions trained.

Table 8: The trained groups were distributed among the participating banks as follows:

Training	Co-operative Bank	Equity Bank	K-Rep Bank	Target number	TOTAL Trained
1 st Training	9	4	11		24
2 nd Training	7	10	0		17
3 rd Training	7	2	0		9
Total per Bank	23	16	11	50	50

In overall terms as depicted in chart 2 below, the capacity building programme of the second tier institutions focusing on the smaller organizations achieved its intended objective of enhancing the capacity of at least 50 intuitions as targeted by the programme. This was achieved through participatory needs assessment and training of a critical mass of SACCOs/Cooperative, MFI and Investment Group (IG) officials to improve on their service delivery to their members who are the final programme target groups.

Chart No 2 of trained participants - clients of Wholesaler Banks



Overall Budget achievements for the MFSSC Project

Absorption of the AFD Funds as at December 2014(MFSSC CKE 3004)

Table 4.1 Expenditure Vs Budget

Cost of project	Amount in 000 Euro	%	Amount spent in Euro	Balances in Euro	% absorbed
Refinancing Credit to Wholesaler	6,800,000	65%	6,790,000¹	10,000	99.85%
Capacity building for wholesalers	600,000	8%	300,000	300,000 ²	50%
Capacity Building for SACCO Sector FSD K	1,150,000	12%	815,300³	334,700	71%
Capacity building Smaller SACCOs (Microde) ⁴	1,150,000	12%			
Audit And Impact	200,000	2%			

¹ Forex gain of Kshs 8, 772,689 is still with the exchequer and is to be transferred to the refinancing Revolving Fund account by the NT.

² Euro 300,000 Already cancelled by AFD and was not disbursed to GoK

³ Net balance expenditure from AFD excluding expenditures from Interest and Forex Gains made by AFD funds

⁴ See Kshs expenditure Table 4.2

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assessment ⁵					
Capacity Building for MoF	100,000	1%	0	0 ⁶	0%
Total	10,000	100%		644,700	

Expenditures and Balances in shillings through the National Treasury

Table 4.2 Expenditure in Kenya shillings and account balances

Cost of project	Amount in Kshs	Amount spent in KShs	Balances in Kshs	% absorbed
1.Financed through Exchequer				
1. Refinancing Credit to Wholesaler	702,772,689	694,000,000	8,772,689	99%
2.Financed Through AFD				
1. Capacity building for wholesalers	31,210,000	31,210,000	0	100%
2. CB Through FSD K ⁷	-	-	-	
3.Financed through Revolving Fund Ac No 1000187506 CB	153,569,700			
1. 2 nd Tier CB through Microde		64,837,410		
2. Audit Fees and impact asses		2,312,240 ⁸	86,420,050	44%
Capacity Building Fund Ac 2 No.	11,426,300	0	11,426,300	0%
Financed Through RF Ac No. 1000187492 (Refinancing)	0	0	0	0%
Total	898,978,689	792,359,650	106,619,039	

Refinancing Component

⁵ See Kshs expenditures 4.2 number 5

⁶ This was folded into the Revolving Fund account in shillings for capacity building.

⁷ See Table 4.1 above. All expenses were incurred in Euro and US dollars from AFD to FSD.

⁸ There are commitments for one Audit fee note and the Impact assessment fee notes awaiting AFD No-objection on the report. These will reduce the balances from the table above.

As presented in table 4.1 above the refinancing component was the most successful with a 99% absorption rate. The budget allocation for the refinancing component was **Euro 6.8 Million** of which **Euro 6.79 Million** was disbursed to the exchequer from the special account. This amount was converted into Kenya shillings at various exchange rates for a total sum of **Kshs 702,772,689**. From this total amount available in Kshs, a total of **Kshs 694,000,000** was disbursed to three wholesalers as presented in table 3.2 above leaving a balance of Kshs **8,772,689.00** with the exchequer due to exchange rate differences between the actual transfer date of funds to the exchequer and disbursement date to the wholesalers⁹. This balance is to be transferred to the Refinancing Revolving Fund account together with the proceeds of the repayment of loans including the accrued interest amounting to **Kshs 793,777,281**. The total balance to be transferred to the Refinancing Revolving Fund account from the exchequer is therefore **Kshs 802,549,970.00** which can be on-lent to the wholesalers under the second round of refinancing.

Wholesaler capacity Building

As presented in Table 4.1 above, the funds allocated to wholesaler capacity building was Euro 600,000. This was expected to be disbursed in two tranches. The first tranche was disbursed to the wholesalers and was utilized as stated in table 3.4 above. It is noted that due to the delay in accounting for the first tranche by the Wholesalers until the deadline of disbursement was passed, the second tranche was cancelled by AFD and removed from the extended agreement. This component therefore achieved 50% absorption rate of the funds that were allocated (table 4.1) but fully utilized 100% the funds that were disbursed to them as presented in (Table 4.8.2.)

Second Tier Capacity building component under FSD Kenya.

Table 4.1 presents the absorption of 71% of the funds that were allocated to second tier Capacity building under FSDK. The details of the expenditure under this sub component are covered in section 3.5 above.

Second Tier Capacity building component under Microde Consult.

Table 4.2 presents the absorption rate of 44% under the Revolving funds available for capacity building of smaller second tier organizations for which Microde Consult was contracted to deliver capacity building. In addition the Revolving Funds were to cater for Impact Assessment and Audit fees. It is noted that these figures exclude the outstanding amount due to PKF for Impact Assessment and one outstanding Audit Fee note still under reconciliation with the National Treasury. These will be taken care of as soon as AFD has given No- Objection for Impact Assessment and the Auditor and NT have reconciled the Audit account and statements.

Conclusions

The support from AFD to the National Treasury to deepen financial inclusion through technical assistance, capacity building and refinancing under the Microfinance Sector Support Credit (MFSSC) project has contributed to significant innovation and growth in the financial sector over

⁹ Note that the disbursement to the wholesalers was made on confirmation of the Transfer of funds from AFD before the funds hit the account at CBK. When the funds were finally received by the exchquer, there was an exchange gain.

the last decade. During the period of the MFSSC project, The National Treasury together with other players in the financial sector have contributed to policies that have enabled the sector to record unprecedented growth in financial inclusion that has been recognized worldwide. The coordination of policy development in the financial sector by the National Treasury through Central Bank of Kenya has led to the introduction of Mobile Money transfer, Agent banking services, development of regulations for Deposit taking MFIs, and wholesale lending of banks to other forms of organizations such as SACCOs etc. The National Treasury has also facilitated the development of a policy framework for regulating deposit taking SACCOs to increase outreach of financial services to the rural areas.

These policies have enabled the development of Technology to create a platform for efficiency and lowering costs of customer acquisition by the financial service providers. This fact is attested by the results of FinAccess Survey of 2013 which shows that the overall exclusion from financial services reduced from 38.4 % in 2006 to 25.4% in 2013 for adults. Notable is the fact that the percentage inclusion from formal sources increased from 26.4 per cent in 2006 to 65% in 2013.

Specific to the MFSSC project, there has been expansion of space in linking commercial banks to lend to SACCOs and Investment groups a phenomenon that hitherto the project was not common. Other than Cooperative Bank whose target was already SACCOs, Equity Bank and K-Rep Bank were newly introduced to lending to the SACCOs as noted in the impact assessment report. This has increased the focus and pool of resources allocated by the two Banks to reach out to a segment of the market they would not have considered before. Notable success is the fact 99% of wholesale funds from AFD was lent out to the three banks and in turn they lent out more than 100% of the funds that were made available to them through the project.

It was found that Capacity building especially for SACCOs is still in dire need and need to be continued both at national and county levels.

The role of TA was instrumental to invigorating the programme implementation adding value to the National Treasury beyond the initial mandate within the scope of the MFSSC programme. This is noted in the facilitation of new projects development within the NT and coordination of sector activities, representing the Ministry in various forums and creating awareness of policy development in the sector. It is during the presence of the ITE that Kenya organized the Microfinance Summit attended by heads of state and other dignitaries putting Kenya in the global map of Microfinance.

The Microfinance Unit was developed within the National Treasury to carry out its mandate. However key challenge to the Unit is skilled manpower turnover. By virtue of the fact that these are Civil servants subject to transfers some of the initially trained staff moved on to better terms elsewhere through promotions, resignation and transfers. This challenge needs to be institutionally addressed by the NT to ensure retention of skilled and experienced manpower.

Summary of Project Compliance

The programme is generally implemented in compliance with applicable laws and regulations, and essential external financing agreements/covenants.

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETRMINED OBJECTIVES

Guidance

Refer to the project objectives from the Credit No and project ID which inform the program budget and annual budget. Report on the extent of the project's progress in attaining the program plan. Report on the metrics met, objectives yet to be met, challenges and opportunities of the project in implementation of its plan

Enumerate all the objectives of the project as per the program plan

Introduction

Section 81 (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 National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objective of the *project's 2005-2014* plan is to promote the financial deepening in the banking sector in order to ensure access to credit by non-banking population of Kenya.

Progress on attainment of Strategic development objectives

The Project attained its strategic development objective of deepening financial inclusion through technical assistance, capacity building and refinancing under the Micro Finance Sector Support Credit Project.

3. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The *Principal Secretary* for the National Treasury and the *Project Coordinator* for *Micro Finance Sector Support Credit* are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangement 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 Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The *Principal Secretary* for the National Treasury and the *Project Coordinator* for *Micro Finance Sector Support Credit* accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The *Principal Secretary* for the National Treasury and the *Project Coordinator* for *Micro Finance Sector Support Credit* are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2020, and of the Project's financial position as at that date. The *Principal Secretary* for the National Treasury and the *Project Coordinator* for *Micro Finance Sector Support Credit* further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The *Principal Secretary* for the National Treasury and the *Project Coordinator* for *Micro Finance Sector Support Credit* confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the *Principal Secretary* for the National Treasury and the *Project Coordinator* for *Micro Finance Sector Support Credit* on 28th 09th 2020 and signed by them.



JULIUS M. MUIA, PhD, EBS
PRINCIPAL SECRETARY/NT



ALBERT K. MWENDA, HSC
PROJECT COORDINATOR



MICHAEL C. MUKANZI
ICPAK MEMBER NUMBER: 17538
PROJECT ACCOUNTANT

REPUBLIC OF KENYA

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Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MICRO FINANCE SECTOR SUPPORT CREDIT PROJECT (CREDIT NO. CKE 3004 01E AND CKE 6010 01E) FOR THE YEAR ENDED 30 JUNE, 2020 – THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Micro Finance Sector Support Credit Project (Credit No. CKE 3004 01E and CKE 6010 01E) set out on pages 19 to 31, which comprise the statement of financial assets as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and statement of comparative 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, the financial statements present fairly, in all material respects, the financial position of Micro Finance Sector Support Credit Project 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 (Cash Basis) and comply with the Credit Facility Agreement No. CKE 3004 01E and Financing Agreement No. CKE 6010 01E dated 25 May, 2005 and 21 September, 2007 respectively and the Public Finance Management Act, 2012.

In addition, the special account statement does not present fairly, transactions for the year and the closing balance has been reconciled with the books of account.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Micro Finance Sector Support and Credit Project 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 opinion.

Emphasis of Matter

Amount Withdrawn but Unclaimed

Part B of the statement of special (designated) account reconciliation for the Project reflects Euro1,152,653.73 (Kshs.139,516,976.95), at the then exchange rate of 1 Euro at Kshs.121.04, as withdrawn but unclaimed as at 30 June, 2020. This represents cumulative funds transfers to the local Project bank account but whose expenditure returns have not been submitted to The National Treasury by the close of the financial year. Further, an additional Euro 30,000 (Ksh3,631,194.00) cash advance to the Project reflected in the list of advances is yet to be justified under the Grant Facility CKE 6010.

My opinion in respect of this matter is not qualified.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of 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, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Failure to Close Project

As per Clause 10 of the financing agreement, the Project was to close on 31 October, 2010 but the closing date was later extended to 31 December, 2014. However, the Project Management is yet to formally prepare and submit the Project closure report. Consequently, the Project is in breach of the agreement with Agence Francaise Development (AFD) with its continued operation without a formal extension. Further, no explanation has been provided for failure to surrender to the Exchequer the balance of Kshs.90,491,999 which has been lying idle in the Project account at the Central Bank of Kenya.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that

govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe 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 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS


As required by Agence Francaise de Development (AFD), I report based on my audit that: -

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and
- iii. The Project's financial statements are in agreement with the accounting records and returns.

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 (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

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



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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Project 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 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 noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project'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 Project to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

30 December, 2020

*Micro Finance Sector Support Credit
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5. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2020

	Note	2019/2020		2018/2019		Cumulative to-date (From inception)
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payment controlled by the entity	Payments made by third parties	
		KShs	KShs	KShs	KShs	KShs
RECEIPTS						
Proceeds from domestic and foreign grants	9.4	-	-	-	-	169,159,764
TOTAL RECEIPTS		-	-	-	-	169,159,764
PAYMENTS						
Purchase of goods and services	9.8	-	-	-	-	78,667,765
TOTAL PAYMENTS		-	-	-	-	78,667,765
SURPLUS/(DEFICIT)		-	-	-	-	90,491,999

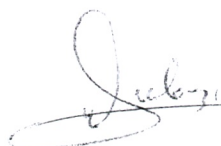
The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.



**JULIUS M. MUIA, PhD, EBS
PRINCIPAL SECRETARY/NT**



**ALBERT K. MWENDA, HSC
PROJECT COORDINATOR**



**MICHAEL C. MUKANZI
ICPAK MEMBER NUMBER: 17538
PROJECT ACCOUNTANT**


(IPSAS 1.3.24 requires an entity to separately disclose third party payments separately on the statement of receipts and payments. These are payments made by development partners directly on behalf of the entity. In recognising these transactions, the receipts must be equal to the payments made and therefore there is no surplus or deficit.)

*Micro Finance Sector Support Credit
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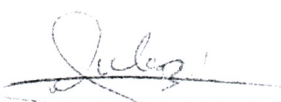
6. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2020

	Note	2019-2020	2018-2019
		KShs	KShs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	9.13.A	90,491,999.00	90,491,999.00
Cash Balances		-	-
Cash Equivalents (short-term deposits)	9.13.C	90,491,999.00	90,491,999.00
Total Cash and Cash Equivalents		90,491,999.00	90,491,999.00
Accounts receivables – Imprest and Advances		-	-
TOTAL FINANCIAL ASSETS		-	-
REPRESENTED BY			
Fund balance b/fwd	9.15	90,491,999.00	90,491,999.00
Prior year adjustments		-	-
Surplus/(Deficit) for the year		-	-
NET FINANCIAL POSITION		90,491,999.00	90,491,999.00

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 28th 09 2020 and signed by:


JULIUS M. MUIA, PhD, EBS
PRINCIPAL SECRETARY/NT


ALBERT K. MWENDA, HSC
PROJECT COORDINATOR



MICHAEL C. MUKANZI
ICPAK MEMBER NUMBER: 17538
PROJECT ACCOUNTANT

*Micro Finance Sector Support Credit
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7. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2020

		2019- 2020	2018-2019
	Note	KShs	KS
Receipts from operating activities			
Transfer from Government entities		-	
Proceeds from domestic and foreign grants		-	
Miscellaneous receipts		-	
Payments from operating activities			
Compensation of employees		-	
Purchase of goods and services		-	
Social security benefits		-	
Transfers to other government entities		-	
Other grants and transfers		-	
Adjustments during the year			
Decrease/(Increase) in Accounts receivable: (outstanding imprest)		-	
Increase/(Decrease) in Accounts Payable: (deposits and retention)		-	
Prior Year Adjustments		-	
Net cash flow from operating activities		-	
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets		-	
Net cash flows from Investing Activities		-	
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings		-	
Net cash flow from financing activities		-	
NET INCREASE IN CASH AND CASH EQUIVALENT		-	
Cash and cash equivalent at BEGINNING of the year		-	
Cash and cash equivalent at END of the year		-	

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 28th 07 2020 and signed by:


JULIUS M. MUIA, PhD, EBS
PRINCIPAL SECRETARY/NT


ALBERT K. MWENDA, HSC
PROJECT COORDINATOR


MICHAEL C. MUKANZI
ICPAK MEMBER NUMBER: 17538
PROJECT ACCOUNTANT

*Micro Finance Sector Support Credit
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8. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	-	-	-	-	-	-
Proceeds from domestic and foreign grants	-	-	-	-	-	-
Proceeds' from borrowings	-	-	-	-	-	-
Miscellaneous receipts	-	-	-	-	-	-
Total Receipts						
Payments						
Compensation of employees	-	-	-	-	-	-
Purchase of goods and services	-	-	-	-	-	-
Social security benefits	-	-	-	-	-	-
Acquisition of non-financial assets	-	-	-	-	-	-
Transfers to other government entities	-	-	-	-	-	-
Other grants and transfers	-	-	-	-	-	-
Total Payments	-	-	-	-	-	-

Note: The significant budget utilisation/performance differences in the last column are explained in Annex 1 to these financial statements.



JULIUS M. MUIA, PhD, EBS
PRINCIPAL SECRETARY/NT



ALBERT K. MWENDA, HSC
PROJECT COORDINATOR



MICHAEL C. MUKANZI
ICPAK MEMBER NUMBER: 17538
PROJECT ACCOUNTANT

9. NOTES TO THE FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these financial statements are set out below:

9.1. Basis of Preparation

9.1.1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

9.1.2. Reporting entity

The financial statements are for the Project xxx under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

9.1.3. Reporting currency

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Project and all values are rounded to the nearest Kenya Shilling.

9.2. Significant Accounting Policies

a) Recognition of receipts

The Project recognises all receipts from the various sources when the event occurs, and the related cash has actually been received by the Government.

• Transfers from the Exchequer

Transfer from Exchequer is be recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

• External Assistance

External assistance is received through grants and loans from multilateral and bilateral development partners.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Project or any other debt the Project may take on will be treated on cash basis and recognized as a receipt during the year they were received.

Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary

• Other receipts

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognised in the financial statements the time associated cash is received.

b) Recognition of payments

The Project recognises all payments when the event occurs, and the related cash has actually been paid out by the Project.

• Compensation of employees

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

• Use of goods and services

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

• Interest on borrowing

Borrowing costs that include interest are recognized as payment in the period in which they incurred and paid for.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

- **Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

c) In-kind donations

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

d) 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.

Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits

SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Accounts receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

f) Contingent Liabilities

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
 - (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - (ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships,

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. **Annex 4** of this financial statement is a register of the contingent liabilities in the year.

Section 89 (2) (i) of the PFM Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans

g) 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) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the

end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

i) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

j) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

k) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Comparative figures

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

m) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 20XX.

*Micro Finance Sector Support Credit
Reports and Financial Statements
For the financial year ended June 30, 2020*

n) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9.7. COMPENSATION OF EMPLOYEES

	2019/20			2018/19	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
-					
Basic wages of temporary employees (Consultancy Services)	-	-	-	-	78,667,765
Total	-	-	-	-	78,667,765

*Micro Finance Sector Support Credit
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For the financial year ended June 30, 2020*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9.13 A Bank Accounts

Project Bank Accounts

	2019/20	2018/19
	KShs	KShs
<u>Foreign Currency Accounts</u>		
Central Bank of Kenya [A/c No.....]	-	-
Kenya Commercial Bank [A/c No.....]	-	-
Co-operative Bank of Kenya [A/c No.....]	-	-
Others (<i>specify</i>)	-	-
Total Foreign Currency balances	<u>≡</u>	<u>≡</u>
<u>Local Currency Accounts</u>		
Central Bank of Kenya [A/c No.1000187506]	90,491,999	90,491,999
Central Bank of Kenya [A/c No.1000181664]	-	-
Co-operative Bank of Kenya [A/c No.....]	-	-
Others (<i>specify</i>)	-	-
Total local currency balances	<u>90,491,999</u>	<u>90,491,999</u>
Total bank account balances	<u>90,491,999</u>	<u>90,491,999</u>

9.15 FUND BALANCE BROUGHT FORWARD

	2019/20	2018/19
	KShs	KShs
Bank accounts	90,491,999	90,491,999
Cash in hand	-	-
Cash equivalents (short-term deposits)	-	-
Outstanding imprests and advances	-	-
Total	<u>90,491,999</u>	<u>90,491,999</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS

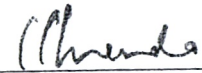
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

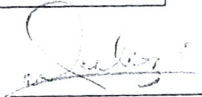
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
AA/TNT/M FSSCP/2017-2018(2)	The date when the financial statement was signed not included in the statement.	This was an omission the financial statement was amended to include the date	Michael Mukanzi Principal Accountant	Resolved	N/A
AA/TNT/MFSSCP/2017-2018(2)	The statement reflected cumulative surplus figure of 90,491,999 instead of 81,739,310	The financial statement was amended to reflect the correct position	Michael Mukanzi Principal Accountant	Resolved	N/A
AA/TNT/M FSSCP/2017-2018(2)	The Statement of Assets and liabilities reflected balance brought forward from 2016/17 of kshs 90,491,999 instead of disclosed amount of 95,172,739	This was an error and the financial statement was amended to reflect the correct position	Michael Mukanzi Principal Accountant	Resolved	N/A
AA/TNT/M FSSCP/2017-2018(2)	The statement of budget and actual amounts did not include ksh 8,800,000 under item 2640500-other capital grants and transfers	This was an oversight and the financial statement was amended to reflect correct the mistake	Michael Mukanzi Principal Accountant	Resolved	N/A

*Micro Finance Sector Support Credit
Reports and Financial Statements
For the financial year ended June 30, 2020*

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)
AA/TNT/M FSSCP/2017 -2018(2)	<u>Material uncertainty related to going concern</u> -the management continue preparing financial statement despite the project having ended in 2014	This was because the final audit on the project had not been done. An independent auditor has been appointed and is in the process of conducting the Audit.	Michael Mukanzi Principal Accountant	Not Resolved	30 th September 2019


JULIUS M. MUIA, PhD, EBS
PRINCIPAL SECRETARY/NT


ALBERT K. MWENDA, HSC
PROJECT COORDINATOR


MICHAEL C. MUKANZI
ICPAKMEMBENUMBER 17538
PROJECT ACCOUNTANT

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance
	a	b	c=a-b	d=b/a %	
Receipts					
Proceeds from domestic and foreign grants					There were no receipts from domestic and foreign grants during the financial year under review
Total Receipts	-	-	-	-	
Payments					
Purchase of goods and services					There was no budget, receipt or payments during the financial year under review as the project ended in 2014. It is in the process of being wound up.
Total payments	-	-	-	-	

APPENDICES

- i. Special Deposit Account(s) reconciliation statement(s)