REPUBLIC KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND

FOR THE YEAR ENDED 30 JUNE, 2020

OFFICE OF THE CONTROLLER OF BUDGET

Tel: 020 2211068, 0738466721, 0709910000
Email: cob@cob.go.ke/Info@cob.go.ke
Website: www.cob.go.ke

Bima House, 12th Floor
Harambee Avenue
P.o Box 35616-00100
Nairobi Kenya

OFFICE OF THE CONTROLLER OF BUDGET (OCOB)

MORTGAGE FUND REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED JUNE 30, 2020

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

Promoting Prudent Utilization of Public Funds

TABLE OF CONTENTS

1. KEY ENTITY INFORMATION AND MANAGEMENT

a) i) Background information

The Office of the Controller of Budget (OCOB) was established under Article 228(1) of the Constitution of Kenya (COK) 2010. The OCOB was further operationalized through the enactment of the Controller of Budget Act, 2016.

The rationale for the creation of the OCOB as an independent office under the Constitution of Kenya, 2010 was to address the demand by the public for separation of financial management functions; that is; controlling, monitoring, evaluating and reporting on budget implementation from the auditing function. The OCOB seeks among other issues, to promote prudent financial management, fiscal discipline and equitable allocation of available resources to improve transparency and accountability in the budget implementation process, particularly with the inception of the devolved system of government, which requires stringent budgetary control.

Prudent financial management will ensure that the country fast tracks the implementation of the programs and flagship projects envisaged in Kenya's vision 2030. The OCOB is headed by the Controller of Budget who is responsible for the policy and strategic leadership of the organization.

ii) OCOB Mortgage Scheme Fund

The OCOB Mortgage Scheme Fund is a revolving fund established pursuant to the Salaries and Remuneration Commission (SRC) circular number SRC/ADM/CIR/1/13 Vol. III (128) dated 17th December 2014. Further, the fund was established and administered as provided for under Section 24 (4) (5) (6) (7) of the PFM Act, 2012 and section 127 (1) (2) of the PFM (National Government) Regulations, 2015.

Section 84 of the Public Finance Management (PFM) Act 2012 mandates the administrator of public funds with the preparation of annual financial statements.

For proper management of the fund and as advised by the SRC in the circular under the reference above, the Office of the Controller of Budget developed Staff Mortgage

Scheme Guidelines, 2018 and adopted the PFM Act, 2012 and PFM Regulations, 2015 to guide in the operationalization of the fund.

The fund is under the management of the Housing Finance Corporation-Kenya (HFCK). The role of the bank is to manage the scheme and provide administrative services for the fund.

The SRC in its circular reference SRC/ADM/CIR/1/13 Vol. III (128) dated 17th December 2014 provided guidelines for access of car loan and mortgage benefits by state and public officers. Arising therefrom, the Office of the Controller of Budget approved and adopted the OCOB Mortgage Scheme Guidelines, 2018 on 1st March, 2019.

The fund is wholly owned by the Office of the Controller of Budget and is domiciled in Kenya.

b) Principal Activities

The principal activity of the fund is to provide mortgage loans to OCOB staff.

Vision

OCOB Vision envisages a country where public funds are utilized prudently.

The OCOB Mortgage Fund envisages being a Fund of Choice for Staff.

Mission

OCOB Mission is to oversee implementation of Government budgets through timely authorization of withdrawals from Public Funds and reporting on utilization.

The Fund's Mission is to provide affordable, accessible and sustainable mortgage loans to staff in line with the Big Four and Vision, 2030.

Core Values

Integrity	• We shall uphold honesty, fairness and professional ethics in all our undertakings.
Transparency and accountability	• We are committed to promoting transparency in our work and shall be accountable for our decisions or actions.
Professionalism	• We shall adhere to best practices, professional standards and ethics to continuously improve service delivery.
Independence	• We execute our constitutional mandate firmly and without fear or favour.
Creativity and Innovativeness	• We are a learning organization that is committed to continuous improvement of our processes in order to deliver value to our customers.
Teamwork	• The staff work as one team and will collaborate with stakeholders in the realization of our mandate.

Staff Mortgage Scheme Fund Management Committee

S/NO	NAME	NAME
1.	CPA Macklin Ogolla	Chairperson
2.	CPA Pamela Okatch	Fund Administrator
3.	CPA Mark Kipkoech	Member
4.	Ms Irene Arimi	Member
5.	Ms Judith Muli	Member
6.	Dr Anthony Lusuli	Member
7.	Mr George Tuti	Secretary

The Fund Management Committee

CPA, FA Macklin Ogolla
Chairperson

CPA Ogolla holds a Master of Business Administration (MBA) in Finance from Moi University and a Bachelor of Science in Actuarial Mathematics from the University of Nairobi. He also holds a Post-graduate Diploma in Finance from Maastricht. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Certified Investment and Financial Analysts (ICIFA). He is also a past Board Member of the Public Sector Accounting Standard Board (PSASB).

He has extensive knowledge in Fiscal Decentralisation, Debt Sustainability Analysis, Budget Coding and Classification from the World Bank and International Public Sector standards from the Public Administration Institute, London and ICT training at Oracle University.

He is an experienced Finance Manager with a track record of success in developing policies, operational financial management information systems, processes and procedures, managing ministry budgeting, financial management and accounting functions. He has worked in various projects such as World Bank-funded El-Nino and Emergency Drought Recovery Projects and was the implementation team leader of the IFMIS at the National Treasury at its inception.

CPA Ogolla has over 28 years' work experience gained from his previous positions as Deputy Director of Budget, and Assistant Accountant General at the National Treasury. He also served as Chief Finance Officer in the Ministry of Industrialization and was a Board Member of the Kenya Industrial Estates Limited.

CPA Pamela Okatch
The Fund Administrator

CPA Pamela holds a Master of Business Administration [Finance Option] and a Bachelor of Commerce degree [Finance Option] from the University of Nairobi and Catholic University of Eastern Africa respectively. She is a member of the Institute of Public Accountants of Kenya (ICPAK) and Association of Women Accountants of Kenya (AWAK). She is a Certified Public Secretaries (CPS) Finalist. She is also a Board Member of the AWAK.

Pamela has over 15 years of experience in the accounting and finance field. She is well versed in accounting systems and practice and has attended various courses of professional training, conferences and workshops both locally and overseas in financial management.

Previously, she worked for the Kenya Institute of Special Education (KISE) as Head of Finance and Administration and Jaribu Credit Traders Limited as a Senior Accountant.

CPA, CS Mark Kipkoech
Member

CPA, CS Kipkoech holds a Master of Economics from the University of Nairobi and Bachelor of Arts degree in Economics from Kenyatta University. He is a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Institute of Certified Public Secretaries of Kenya (ICPSK).

He is experienced in the finance industry having previously worked in the finance and accounting sections at Amana Capital Ltd, Lukenya Getaway Ltd, and at Trustmark Insurance Brokers Ltd.

He has had extensive training in investment banking, management and administration of retirement pension schemes, accounting for public

and private entities, public finance, public procurement, data analysis and report writing, management and administration. Before joining OCOB, he was the Finance and Compliance Manager at Amana Capital Ltd and was appointed Pension Administrator of the Amana Personal Pension Scheme and the Amana Umbrella Pension Scheme in line with the requirements of the Retirement Benefits Authority.

Mrs. Irene Arimi
Member

Ms Arimi holds a Master of Business Administration (MBA) in HR from Kenya Methodist University (KeMU). She also holds a Bachelors' degree in HR Management and Higher National Diploma in HR both from the University of South Africa (UNISA) as well as a Certificate in Executive Human Resource Management from the Institute of Human Resource Management.

Ms Arimi has over 16 years' experience in Human Resource management. Previously she worked at the Kenya Methodist University as the Administrative Officer – HR, at the William J. Clinton Foundation HIV/AIDS Initiative (CHAI) in Papua New Guinea as HR Coordinator and Marketing, Travel and Credit Consultancy (MTC), Botswana as Products and Services Manager. She has also worked with Deloitte, South Africa/Botswana as HR Management Assistant. She is a member of the Institute of Human Resources Management (IHRM).

Ms. Judith Muli
Member

Ms Muli holds a Master of Science in Information Systems from the University of Nairobi, a Master in Business Administration (Strategic Management option) from Moi University and a Bachelor of Science in Mathematics with bias in computing from the University of Nairobi. She is currently pursuing a PhD program in Information

Technology at the Jomo Kenyatta University of Agriculture and Technology.

Judith has extensive professional training and over fifteen years of work experience in information systems management and training, ICT project management and research. She previously worked as a lecturer at Jomo Kenyatta University of Agriculture and Technology [JKUAT]. Some of the National projects Judith has been engaged include being the research team leader in the development of e-government strategic plan 2008-2012 Kenya, Country field Manager in ResearchICTafrica.net 2007–SME E-access and e-usage for WSIS–Tunis and the research project coordinator for Communication Commission of Kenya Research - Internet Market Study for Kenya 2006.

Judith has attended various leadership, management and ICT seminars and workshops including Senior Management Course (SMC) at the Kenya School of Government, TOM PETERS (Reimagine Leadership/Re-imagine Excellence) by KPMG, Microsoft Partner University program and United Nations second World Data Forum, amongst others.

She is a member of Information Systems Audit and Control Association (ISACA), Computer Society of Kenya [CSK], Internet Society (ISOC), Kenya Chapter, a lister with Kenya ICT Action Network [KICTANet] and a Toastmaster.

Dr. Anthony Lusuli
Member

Dr Lusuli holds a PhD in Supply Chain Management, Masters' Degree in Procurement and Logistics both from Jomo Kenyatta University of Agriculture and Technology and a Bachelor's Degree in Business Administration (Entrepreneurship) from the Kenya Methodist University. He is also a member of Kenya Institute of Supplies Management and Chartered Institute of Purchase and Supplies.

Dr Lusuli has over 31 years of experience in Supply Chain management both in the public and private sectors. Previously, he worked as a Supply Chain

Management Officer at Kenya National Bureau of Statistics (KNBS), World Bank Project on Flood Mitigation as well as the National Treasury. He has participated in drafting several pieces of legislation especially the Public Procurement and Asset Disposal Act, 2015 and draft Public Procurement and Asset Disposal Regulations of 2016.

He was part of the pioneer team that sensitized public servants on the implementation of the Public Procurement and Asset Disposal Act, 2015 in the Public Sector. He is also part of the team that pioneered the implementation of IFMIS in the public sector.

Waweru Tuti
Secretary

Waweru Tuti is an Advocate of the High Court of Kenya and holds a Post-graduate Diploma in law form the Kenya School of Law and a Bachelor of Laws (LLB) Degree from the University of Nairobi. He is a member of the Law Society of Kenya(LSK) and an Associate Member of the Chartered Institute of Arbitrators (CIArb-Kenya). He is also a Member of the International Association for Public Participation.

Mr. Tuti has over 12 years' experience in the legal profession. Previously, he worked at the State Law Office as a State Counsel dealing with litigation matters and earlier at Njenga Mbugua & Nyanjua Advocates as a Litigation Associate. He has also worked with CDI-Africa, the premier Coach Institute in East & Central Africa.

c) Registered Offices

Entity Headquarters
Office of the Controller of Budget
Bima House 12th Floor
Harambee Avenue
P.O. Box 35616-00100
Telephone: (254) 020-2211068
E-mail: cob@cob.go.ke
Website: www.cob.go.ke
Nairobi, Kenya

d) Fund Contacts

Office of the Controller of Budget
P.O. Box 35616-00100
Telephone: +254 (0) 20 318939, 2211056
E-mail: cob@cob.go.ke
Website: www.cob.go.ke

e) Fund Bankers

1. Central Bank of Kenya
   Haile Selassie Avenue
   P.O. Box 60000
   City Square 00200
   Nairobi, Kenya

2. Housing Finance Company of Kenya Ltd
   HFC Mortgage Division
   Head Office: Rehani House, Kenyatta Avenue / Koinange Street
   P.O Box 30088-00100
   Mobile number: 0709 438 000 & 0709 438 888
   Email: customer.service@hfgroup.co.ke or mybank@hfgroup.co.ke

f) Independent Auditors

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

g) Principal Legal Adviser

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

2. THE CONTROLLER OF BUDGET FORWARD REPORT

It is my pleasure to forward, on behalf of the fund administration committee, the Office of the Controller of Budget mortgage fund financial statements for the year ended 30th June, 2020. The financial statements present the financial performance of the fund over the past financial year.

Review of performance

Income

The fund earned revenues amounting to **Kshs. 105,077,378.42** from both non-exchange and exchange transactions. The income received from non-exchange transaction includes transfer from the national government of **Kshs 100,000,000** while **KShs. 5,077,378.42** was earned through exchange transactions from interest income in the fixed term deposit account. Since inception a total sum of **Kshs 150,000,000** has been received from the exchequer for the mortgage fund. Overall revenue increased by 67.8% from the previous financial year.

Expenditures

A part from withholding tax on interest of **Kshs. 761,608.11** that was charged at a prevailing tax rate of 15% on interest income earned, there was no any other expenditure incurred or charged in the fund during the year under review. Generally, the committee did not disburse any loan during the period due to Covid-19 implications. However, there were few applications received that were at various stages of approval as at the end of the financial year under review.

Future outlook

The outlook of the Fund for FY 2020/2021 looks brighter. The fund hopes to establish other funds like car loan funds. The fund focus is looking to build a robust and sustainable fund with a motivated workforce and structures that enhance efficiency and effectiveness in the service delivery. The fund looks forward to continued support from the National Government and other stakeholders to the realization of its mandate.

Appreciation

I take this opportunity to express my sincere gratitude and appreciation to the national government, development partners, stakeholders, management, staff and fund committee members for their continued support which made us achieve these results.

I look forward to your continued support in the year 2020/2021.

Signed: _____

Controller of Budget
Name: CPA Dr. Margaret Nyakang'o
ICPAK Member: 2145

3. CORPORATE GOVERNANCE STATEMENT

THE MORTGAGE FUND

The OCOB Mortgage Fund scheme is a revolving fund established pursuant to the Salaries and Remuneration Commission (SRC) circular number SRC/ADM/CIR/1/13 Vol. III (128) dated 17th December 2014 and Section 24 (4)(5)(6)(7) of the Public Finance Management (PFM) Act 2012 and 127 (1)(2) of the PFM (National Government) Regulations, 2015. Its mandate is to provide car loans to members of staff. The fund is committed to ensuring compliance with regulatory and supervisory corporate governance requirements. Essential to the establishment of a corporate governance framework in the fund is a formal governance structure with the committee at its apex. The operations of the fund are governed by OCOB Staff Mortgage Scheme Guidelines, 2018 approved on 1st March, 2019 and PFM Act, 2012, PFM Regulations, SRC Circulars, National Treasury Circulars and any other government legislations.

THE FUND MANAGEMENT COMMITTEE

Section 6 & 8 of the OCOB Staff Mortgage Guidelines of 2018 provides for appointment of committee and administrator of the fund. The committee is made up of seven members including the chairperson and a secretary. The committee is responsible for the long-term strategic direction of the fund. The committee exercises leadership, enterprise, integrity and judgment in directing the Fund.

The committee members are provided with full, appropriate and timely information that enables them to maintain full and effective control over the strategic, financial, operational and compliance issues. The day-to-day running of the operations of the fund is delegated to the fund administrator but the committee is responsible for establishing and maintaining the fund's system of internal controls for the realization of its mandate.

COMMITTEE MEETINGS

The committee meets quarterly or as required in order to monitor the implementation of the fund's strategic plan and achievement of the targets. The committee also plays an oversight role over all other financial and operational issues.

STATEMENT OF COMPLIANCE

The committee confirms that the fund has throughout the FY2019/2020 complied with all statutory and regulatory requirements and that the fund has been managed in accordance with the principles of good corporate governance.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

The committee is responsible for reviewing the effectiveness of the fund's system of internal control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

Management Team

The management team headed by the Fund Administrator implements the committee decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the committee's objectives are achieved effectively and efficiently.

Auditor

The fund is audited by the Auditor-General.

4. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Corporate social responsibility is an integral part of our culture. As a responsible organisation, we respect the interests of our stakeholders – our employees, customers, suppliers and the wider community and we actively seek opportunities both to improve the environment and to contribute to the well-being of the communities around us.

During the financial year 2019/20, the fund did not carry-out any CSR due to the instability brought about by Covid-19 pandemic and the adherence to the measures put in place by the government thereon to curb the pandemic. We are looking forward to getting involved more in CSR activities in FY 2020/21, and the management team has been tasked with coming up with CSR ideas.

5. REPORT OF THE COMMITTEE

The committee submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the fund affairs.

Principal activities

The principal activity of the fund is to provide financing to the members of staff to purchase, develop or renovate residential property.

Results

The results of the Fund for the year ended June 30, 2020 are as set out on pages 1 to 6

Committee

The members of the committee who served during the year are as shown on page-V. There were no changes in the committee during the FY 2019/20.

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Committee

.....

Committee Chair
Name: CPA Macklin Ogolla
ICPAK Member: 4077

Date: 28th September 2020.

6. STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

The Administrator of the National 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, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 National 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. 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, 2020, 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 National 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 Committee on 28th September 2020 and signed on its behalf by:

Mortgage Fund Administrator
CPA Pamela Okatch
ICPAK Member Number: 7884

7. REPORT OF THE AUDITOR GENERAL ON THE OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30TH JUNE, 2020.

REPUBLIC OF KENYA

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

Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Office of the Controller of Budget Mortgage Fund set out on pages 1 to 16, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, and the statement of cash flows 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 the Office of the Controller of Budget Mortgage Fund 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 (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Office of the Controller of Budget 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 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, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements 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 overall 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 control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing 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 financial reporting process, reviewing the effectiveness of how the Fund 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 overall 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 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 continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

26 May, 2021

FINANCIAL STATEMENTS

1.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2020

	Note	FY2019/2020	FY2018/2019
		KShs	KShs
Revenue from non-exchange transactions			
Transfers from the National Government	1	100,000,000	50,000,000
		100,000,000	**50,000,000**
Revenue from exchange transactions			
Interest income	2	5,077,387.42	-
		5,077,387.42	**-**
Total revenue		**105,077,387,.42**	**50,000,000**
Expenses			
Finance costs	3	761,608.11	-
Total expenses		**(761,608.11)**	**-**
		104,315,779.31	**50,000,000**
Other gains/(losses)			
Gain/(loss) on disposal of assets	4	-	-
Surplus/(Deficit) for the period		**4,315,779.31**	**-**

The notes set out on page 1 to 16 form an integral part of these Financial Statements

1.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	FY2019/2020	FY2017/2018
		KShs	KShs
Assets			
Current assets			
Cash and cash equivalents	11	154,315,779.31	50,000,000
		154,315,779.31	50,000,000
Non-current assets		-	-
Total assets		154,315,779.31	50,000,000
Liabilities			
Current liabilities		-	-
Non-current liabilities		-	-
Total liabilities		-	-
Net assets		154,315,779.31	50,000,000
Revolving Fund		150,000,000	50,000,000
Reserves		-	-
Accumulated surplus		4,315,779.31	-
Total Equity		154,315,779.31	50,000,000

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 September 2020 and signed by:

Name: CPA Macklin Ogolla
ICPAK Member: 4077
Committee Chair

CPA Pamela Okatch
ICPAK Member Number: 7884
Mortgage Fund Administrator

1.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2020

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2018	-	-	-	-
Surplus/(deficit) for the period	-	-		-
Funds received during the year	50,000,000	-	-	**50,000,000**
Revaluation gain	-	-	-	-
Balance as at 30 June 2019	**50,000,000**	-	-	**50,000,000**
Balance as at 1 July 2019	**50,000,000**	-	-	**50,000,000**
Surplus/(deficit) for the period	-	-	4,315,779.31	**4,315,779.31**
Funds received during the year	100,000,000	-	-	**100,000,000**
Revaluation gain	-	-	-	-
Balance as at 30 June 2020	**100,000,000**	-	**4,315,779.31**	**154,315,779.31**

1.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	FY2019/2020	FY2018/2019
		KShs	KShs
Cash flows from operating activities			
Receipts			
Transfers from the National Government		100,000,000	50,000,000
Interest received		5,077,387.42	
Receipts from other operating activities			
Total Receipts		**105,077,387.42**	**50,000,000**
Payments			
Finance cost		761,608.11	
Total Payments		**761,608.11**	
Net cash flows from operating activities	21	**104,315,779.31**	**50,000,000**
Cash flows from investing activities		-	-
Purchase of property, plant, equipment and intangible assets		-	-
Proceeds from sale of property, plant and equipment		-	-
Proceeds from loan principal repayments		-	-
Loan disbursements paid out		-	-
Net cash flows used in investing activities		-	-
Cash flows from financing activities			
Proceeds from revolving fund receipts			
Additional borrowings			
Repayment of borrowings			
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		**104,315,779.31**	**50,000,0000**
Cash and cash equivalents at 1 JULY	15	50,000,000	-
Cash and cash equivalents at 30 JUNE	15	**154,315,779.31**	**50,000,0000**

1.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2020

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2019/20	2019/20	2019/20	2019/20	2019/20	2019/20
Revenue	KShs	KShs	KShs	KShs	KShs	
Public contributions and donations	-	-	-	-	-	-%
Transfers from National Govt.	100,000,000	-	100,000,000	100,000,000	-	100%
Interest income	5,077,387.42	-	5,077,387.42	5,077,387.42	-	-%
Other income						100%
Total income	**105,077,387.42**		**105,077,387.42**	**105,077,387.42**	**-**	**100%**
Expenses						
Finance cost	761,608.11		761,608.11	761,608.11	-	100%
Total expenditure	**761,608.11**		**761,608.11**	**761,608.11**		**100%**
Surplus for the period	**4,315,779.31**		**4315,779.31**	**4,315,779.31**		**100%**

1.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. 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.

3. Budget information

The original budget for FY 2018/2019 approved by the National Assembly for the OCOB was Kshs 618,170,000 with an allocation of Kshs 50,000,000 towards the mortgage fund account. Further, the original budget for FY 2019/20 was Kshs 703,100,000. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded additional appropriations of Kshs 100,000,000 on the 2019-2020 budgets following the national assembly approval.

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 actuals as per the statement of financial performance has been presented under section 12.5 of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. 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.

5. Related parties

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 Fund Administrator and the Fund Accountant.

6. Cash and cash equivalents

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

7. Comparative figures

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

8. Events after the reporting period

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

9. Ultimate and Holding Entity

The entity is a National Public Fund established by Section 84 of the Public Finance Management (PFM) Act 2012. Its ultimate parent is the OCOB.

10. Currency

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Financial risk management

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

1.7. NOTES TO THE FINANCIAL STATEMENTS

1. Transfers from National Government

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Transfers from National Govt. – operations	100,000,000	50,000,000
Payments by County on behalf of the entity	-	-
Total	**100,000,000**	**50,000,000**

During the year under review, transfers from the Exchequer of sum **Kshs 100,000,000** was received by the fund managers-The Housing Finance Corporation- Kenya as follows:

Date	Amount
30/09/2019	25,000,000
27/03/2020	50,000,000
09/06/2020	25,000,000
Total	**100,000,000**

Refer to the attached Bank Statement Marked-Annex I

2. Interest income

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Interest income from loans (mortgage or car loans)	-	-
Interest income earned on deposits	5,077,387.42	-
Total interest income	**5,077,387.42**	-

The Interest Income of Kshs 5,077,387.42 relates to the total interest earned on the capital sum deposited in the free fund account at an annualized 91-day treasury bill rate minus 1%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3.Finance costs

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Interest on Bank overdrafts		
Interest on loans from banks		
Withholding Tax on interest income	761,608.11	-
Total	**761.608.11**	**-**

Finance costs of Kshs 761, 608.11 relate to the withholding tax on interest income as per the bank statement marked as *Annex-I* herewith attached.

4.Cash and cash equivalents

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Fixed deposits account	154,315,779.31	50,000,000
On – call deposits		
Current account		
Others		
Total cash and cash equivalents	**154,315,779.31**	**50,000,000**

(The amount should agree with the closing and opening balances as included in the statement of cash flows)

The closing bank balance of Kshs 154,315,779.31 is supported by Bank Balance Certificate marked as *Annex II* herewith attached.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

		FY2019/2020	FY2018/2019
Financial institution	**Account number**	**KShs**	**KShs**
a) Fixed deposits account			
Housing Finance Company Ltd	9289753401-0	154,315,779.31	50,000,000
Sub- total		154,315,779.31	50,000,000
b) On - call deposits		-	-
Sub- total			
c) Current account		-	-
Sub- total			
d) Others(specify)		-	-
Cash in transit			
Cash in hand			
M Pesa			
Sub- total		-	-
Grand total		154,315,779.31	50,000,000

1. Cash generated from operations

	FY2019/2020	FY2018/2019
	KShs	**KShs**
Surplus for the year before tax		
Adjusted for:		
Interest income	5,077,387.42	-
Finance cost	761,608.11	
Working Capital adjustments		
Decrease in inventory		

(Increase)/Decrease in receivables	100,000,000	50,000,000
Increase in payables		
Net cash flow from operating activities	**104,315,779.31**	**50,000,000**

2. 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) Office of the Controller of Budget
b) Housing Finance Company of Kenya;
c) Mortgage Scheme Fund Committee; and
d) Key management personnel.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Related party transactions

	FY2019/2020		FY2018/2019
	KShs		KShs
Transfers from related parties'	100,000,000		50,000,000
Transfers to related parties	-		-
Total	**100,000,000**		**50,000,000**

c) Due from related parties

	FY2019/2020		FY2018/2019
	KShs		KShs
Due from parent Ministry	-		-
Due from National Government	100,000,000		50,000,000
Total	**100,000,000**		**50,000,000**

d) Due to related parties

	FY2019/2020		FY2018/2019
	KShs		KShs
Due to parent Ministry	-		-
Due to National Government	-		-
Due to Key management personnel	-		-
Total	**-**		**-**

2. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Guidance Notes:

a) Use the same reference numbers as contained in the external audit report;
b) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
c) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
d) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to County Treasury.

The fund was established in FY 2018/19 and became operational in FY 2019/2020 hence no previous audit done and consequently no follow up of auditor's recommendations.

ANNEX 1

HFC
Dreams Made Possible

Statement of Account

OFFICE OF THE CONTROLLER OF BUDGET- HIGH INTEREST ACCOUNT

Branch: HEAD OFFICE
Product: 31201
Description: FIXED TERM DEPOSIT ACCOUNT

Statement Date: 17/08/2020
Account Number: 9289753401- 0
Currency: KES
Account Status: ACTIVE
Customer: 928975 - 1
Address: PO BOX 35616 00100 NAIROBI
00100
NAIROBI

Date Posted	Effective Date	Description	Debit	Credit	Balance
01/07/2019	01/07/2019	INITIAL TERM DEPOSIT TRANFER		50,000,000.00	50,000,000.00
30/09/2019	30/09/2019	INCREASE CAPITAL TERM DEPOSIT JOURNAL		25,000,000.00	75,000,000.00
30/09/2019	30/09/2019	CREDIT INTEREST		855,308.22	75,855,308.22
30/09/2019	30/09/2019	TAX ON CREDIT INTEREST	128,296.23		75,727,011.99
03/10/2019	03/10/2019	TERM DEPOSIT PAYMENT AT EXPIRY-JOURNAL	75,727,011.99		0.00
03/10/2019	03/10/2019	INITIAL TERM DEPOSIT TRANFER		75,727,011.99	75,727,011.99
28/12/2019	28/12/2019	CREDIT INTEREST		990,945.01	76,717,957.00
28/12/2019	28/12/2019	TAX ON CREDIT INTEREST	148,641.75		76,569,315.25
31/12/2019	31/12/2019	TERM DEPOSIT PAYMENT AT EXPIRY-JOURNAL	76,569,315.25		0.00
31/12/2019	31/12/2019	INITIAL TERM DEPOSIT TRANFER		76,569,315.25	76,569,315.25
03/01/2020	03/01/2020	TERM DEPOSIT PAYMENT AT EXPIRY-JOURNAL	76,569,315.25		0.00
03/01/2020	03/01/2020	INITIAL TERM DEPOSIT TRANFER		76,569,315.25	76,569,315.25
27/03/2020	27/03/2020	INCREASE CAPITAL TERM DEPOSIT JOURNAL		50,000,000.00	126,569,315.25
30/03/2020	30/03/2020	CREDIT INTEREST		1,188,277.27	127,757,592.52
30/03/2020	30/03/2020	TAX ON CREDIT INTEREST	178,241.59		127,579,350.93

09/04/2020	09/04/2020	TERM DEPOSIT PAYMENT AT EXPIRY-JOURNAL	127,579,350.93		0.00
09/04/2020	09/04/2020	INITIAL TERM DEPOSIT TRANFER		127,579,350.93	127,579,350.93
09/06/2020	09/06/2020	INCREASE CAPITAL TERM DEPOSIT JOURNAL		25,000,000.00	152,579,350.93
27/06/2020	27/06/2020	CREDIT INTEREST		2,042,856.92	154,622,207.85
27/06/2020	27/06/2020	TAX ON CREDIT INTEREST	306,428.54		154,315,779.31

OFFICE OF THE CONTROLLER OF BUDGET- HIGH INTEREST ACCOUNT

ANNEX 11

HFC
Dreams Made Possible

Head Office: Rehani House
Koinange Street/Kenyatta Avenue
P.O. Box 30088 - 00100
Nairobi, Kenya
Tel: (+254 20) 3262000
Fax: (+254 20) 2250858
Email: mybank@hfgroup.co.ke
Website: www.hfgroup.co.ke

May 18, 2021

Our Ref.: SGW/ 9289753101/ 9289753401.

CONTROLLER OF BUDGET,
OFFICE OF THE CONTROLLER OF BUDGET,
P.O. BOX 35616-00100,
NAIROBI.

Dear Sir/Madam,

RE: CERTIFICATE OF BALANCE: OFFICE OF THE CONTROLLER OF BUDGET.

The information requested is as follows:

The above client operates a fixed deposit accounts and a deposit account mortgage scheme whose full title and balances as at 30th June 2019 & 2020 is as follows (see attached statements).

Type of Account	Title of account	Account Number	Balance as at 30th June 2019	Interest Accrued and not included (Kshs.)
Fixed Term Deposit Account	OCOB Scheme High Interest Account	9289753401	Kshs. 0.00	Kshs. 0.00
Mortgage Scheme Deposit	OCOB Scheme Back Up Account	9289753101	Kshs. 0.00	Nil
Type of Account	Title of account	Account Number	Balance as at 30th June 2020	Interest Accrued and not included (Kshs.)
Fixed Term Deposit Account	OCOB Scheme High Interest Account	9289753401	Kshs. 154,315,779.31	Kshs. 20,427.87
Mortgage Scheme Deposit	OCOB Scheme Back Up Account	9289753101	Kshs. 0.00	Nil

We trust the information provided will be of importance to you.

Yours faithfully,

FOR: HFC

18/05/2021

SAMSON GICHIA

SCHEMES ADMINISTRATOR.