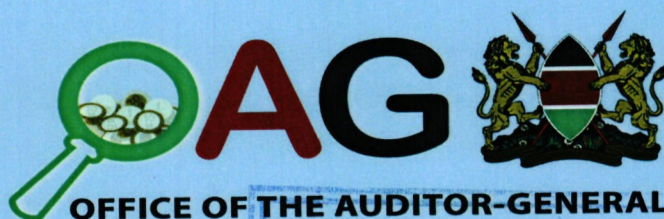


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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 06 APR 2022

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OF

THE AUDITOR-GENERAL

ON

OFFICE OF THE CONTROLLER
OF BUDGET MORTGAGE FUND

FOR THE YEAR ENDED
30 JUNE, 2021

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OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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17 FEB 2022
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OFFICE OF THE CONTROLLER OF BUDGET



MORTGAGE FUND ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
30 JUNE, 2021

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

OFFICE OF THE CONROLLER OF BUDGET MORTGAGE FUND
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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 Fund

The OCOB Mortgage Fund is established and derives its authority and accountability from section 24 (4) & section 84(1) of the Public Finance and Management Act, 2012 respectively.

The OCOB Mortgage Scheme Fund was established in FY 2018/19 as a revolving fund in line with the Salaries and Remuneration Commission (SRC) circular Ref. No: SRC/ADM/CIR/1/13 Vol. III (128) dated 17th December 2014 with the objective of providing a loan scheme for the purpose of residential property for staff. The scheme fund was established and is 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 (1) (2) 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 guided 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

OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND
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operationalization of the fund. Arising therefrom, the Office of the Controller of Budget approved and adopted the OCOB Mortgage Scheme Guidelines, 2018 on 1st March, 2019

The fund was established with an initial capital outlay of Kshs 50,000,000 paid out from the office annual budget allocation of Financial Year (FY)-2018/19 as a seed capital. This initial capital has since been enhanced fivefold through exchequer allocations to Kshs 250,000,000 as at 30th June, 2021.

The scheme's secretariat and the administrator are drawn from the OCOB but its management is under the Housing Finance Corporation-Kenya (HFCK). The role of the bank is to manage the scheme and provide administrative services for the fund.

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 for the sole purpose of:

- i) Purchasing an existing residential property
- ii) Purchase of land and construction
- iii) Construction, renovation and/or improvement of existing residential property or existing plot/land
- iv) Takeover loans on existing mortgages or equity release on existing mortgage property/ies.

Vision

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

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

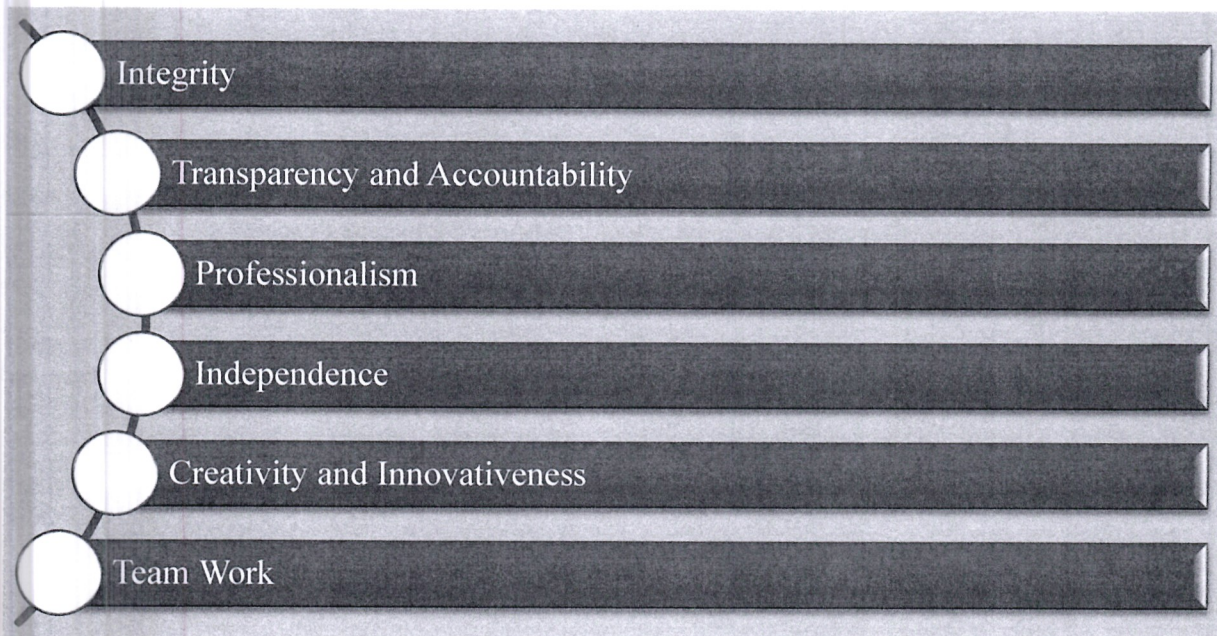
Mission

OCOBS 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 Government's Big Four Agenda on Housing and Vision, 2030.

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Core Values



c) Staff Mortgage Fund Administration Committee

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

d) Fiduciary Oversight Arrangements of the Fund

The key management personnel who held office during the financial year ending 30th June, 2021 and who had direct fiduciary responsibility were:

S/NO	POSITION	NAME
1.	Controller of Budget	CPA Dr. Margaret Nyakang'o
2.	Chairperson	CPA Macklin Ogolla
3.	Fund Administrator	CPA Pamela Okatch
4.	Fund Secretary	Mr. George W. Tuti
4.	Fund Managers and Administrators	Housing Finance Corporation, Kenya Limited

OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND

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For the year ended June 30, 2021

e) 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

f) 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

g) 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

h) Independent Auditors

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

i) Principal Legal Adviser

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

ii) The OCOB Legal Directorate

j) Fund Administrator

Office of the Controller of Budget
P.O. Box 35616-00100
Telephone: +254 (0) 20 318939, 2211056

OFFICE OF THE CONROLLER OF BUDGET MORTGAGE FUND
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E-mail: cob@cob.go.ke
Website: www.cob.go.ke

3. THE FUND MANAGEMENT COMMITTEE



CPA Dr. Margaret Nyakang'o
Controller of Budget

CPA Dr Margaret Nyakang'o is the Controller of Budget. She holds a Doctorate in Business Administration from the University of Liverpool, UK. She also holds a Master of Business Administration degree in Strategic Management and a Bachelor of Commerce in Accounting, both from the University of Nairobi. Dr Nyakang'o is a Certified Public Accountant and member of the Institute of Certified Public Accountants of Kenya (ICPAK). She is also a member of the Association of Women Accountants of Kenya and an active member of the Women on Boards Network with hands-on

skills in corporate governance.

Dr Nyakang'o has thirty years of professional experience in the public and private sectors. She has broad experience in Finance and Accounting, Strategic Management, Auditing, Tax, and Human Resource Management. She has undertaken training both within and outside her profession in various disciplines including Enterprise Risk Management, Quality Management Systems, Public Finance Management, and Corporate Governance amongst others. She is passionate about mentoring and coaching young aspiring women professionals and is a Certified Online Trainer and a Certified Professional Coach.

OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND
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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 has six years as 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.



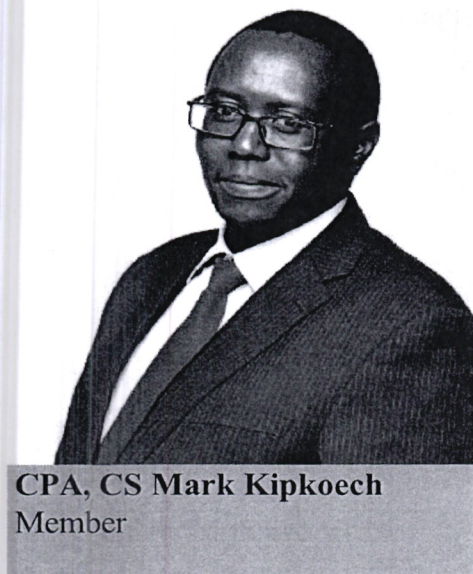
CPA Pamela Okatch
The Fund Administrator

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.

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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

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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.

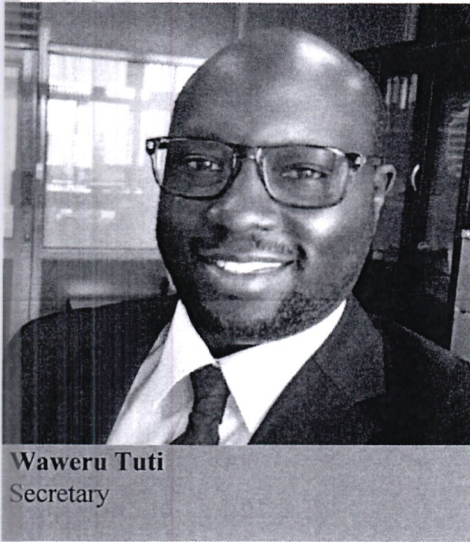
Judith has extensive professional training and over fifteen years of work experience in information systems management and training, ICT project management and research. She previously worked as a lecturer at Jomo Kenyatta University of Agriculture and Technology [JKUAT]. Some of the National projects 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.

OFFICE OF THE CONROLLER OF BUDGET MORTGAGE FUND
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For the year ended June 30, 2021



Waweru Tuti
Secretary

Waweru Tuti is an Advocate of the High Court of Kenya and holds a Post-graduate Diploma in law from 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.

OFFICE OF THE CONROLLER OF BUDGET MORTGAGE FUND
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4. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

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 strategic objectives are contained in the OCOB 2018-2022 Strategic Plan. However, to achieve the objective of the Salaries and Remuneration Commission (SRC) circular Ref. No: SRC/ADM/CIR/1/13 Vol. III (128) dated 17th December 2014 that initialized the establishment of the fund, the OCOB 2018-2022 Strategic Plan incorporated the following as one of its strategic objectives.

- To attract and retain a productive and motivated human resource

To realise this strategic objectives, the OCOB Mortgage Fund relied on its strategic plan to guide activities, policy formulation and work plans and made the following progress and achievements towards its targeted objective during FY 2020/2021.

Below we provide the progress on attaining the stated objective:

Program	Objective	Outcome	Indicator	Performance
Control and Management of Public Finances	To attract and retain a productive and motivated human resource	Increased number of staff accessing the mortgage	Percentage of staff retained in OCOB and number of staff who accessed the mortgage loans	The number of staff who accessed the mortgage loans rose from none (0) in FY 2019/20 to Eight (8) staff in FY 2020/2021. This has led to a motivated workforce and retention of staff in OCOB.

OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2021

5. 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, 2021. 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. 8,269,945 from both non-exchange and exchange transactions in the year under review compared to Kshs 5,077,378.42 earned in re-stated previous year

Transfers

During the year under review, OCOB received additional capital fund amounting to Kshs.100,000,000. Since inception a total sum of Kshs 250,000,000 has been received from the exchequer for the mortgage fund. Overall revenue increased by 2% from the previous financial year mainly from the interest income received on the scheme deposit account.

Expenditures

The fund managers withheld tax on interest of Kshs. 1,129,882 charged at a prevailing tax rate of 15% on the total interest income earned of Kshs 7,532,547 during the FY 2020/21. During the previous year-FY 2019/20, the fund account earned a cumulative interest of Kshs.5,077,387 leading to withholding tax of Kshs. 761,608 representing an increase of 60% on the tax charged and paid.

In addition, the contract agreement, No. 13/2018-2019 on provision of mortgage administration services provides that interest on mortgage loans is at 3% per annum on a reducing balance, all paid to Housing Finance (HF) Ltd as administration costs. During the period under review Kshs 737,398 was earned as interest from issued mortgage loans and expensed as administration costs as per the contract terms.

Future outlook

The outlook of the Fund for FY 2021/2022 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

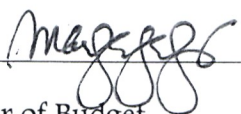
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For the year ended June 30, 2021

a motivated workforce and structures that enhance efficiency and effectiveness in the service delivery. The scheme looks forward to continued support from the national government and other stakeholders to the realization of its full potential of a stable and sustainable revolving fund.

Appreciation

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

I look forward to your continued support in the year 2021/2022.

Signed:  _____

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

Date: 29th September 2021.

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6. 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.

OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND

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For the year ended June 30, 2021

STATEMENT OF COMPLIANCE

The committee confirms that the fund has throughout the FY2020/2021 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.

7. 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 2020/21, the fund did not carry-out any CSR due to the 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 2021/22, and the management team has been tasked to come up with CSR ideas.

OFFICE OF THE CONROLLER OF BUDGET MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2021

8. REPORT OF THE COMMITTEE

The committee submit their report together with the audited financial statements for the year ended June 30, 2021 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, 2021 are as set out on pages 1 to 18

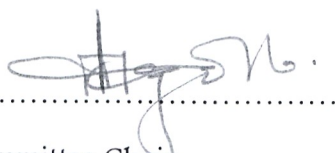
Committee

The members of the committee who served during the year are as shown on page-V.

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and section (35) & (36) of the Public Audit Act 2015.

By Order of the Committee



.....
Committee Chair
CPA Macklin Ogolla
ICPAK Member: 4077

Date: 29th September 2021.

9. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Section 84(1) 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, 2021. 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, 2021, 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.

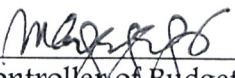
In preparing the financial statements, the Administrator of the National Public Fund has assessed the Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements.

OFFICE OF THE CONROLLER OF BUDGET MORTGAGE FUND
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For the year ended June 30, 2021


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 29th September 2021 and signed on its behalf by:



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



Mortgage Fund Administrator
CPA Pamela Okatch
ICPAK Member Number: 7884

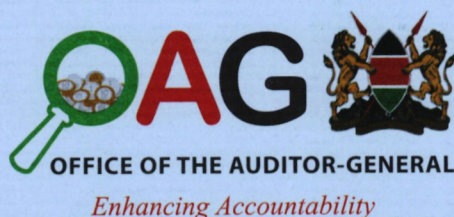


Committee Chair
CPA Macklin Ogolla
ICPAK Member: 4077

Date: 29th September 2021.

REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON THE OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Office of the Controller of Budget Mortgage Fund set out on pages 1 to 20, which comprise of the statement of financial

Report of the Auditor-General on Office of the Controller of Budget Mortgage Fund for the year ended 30 June, 2021

position as at 30 June, 2021, 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, 2021 and of its financial performance and its cash flows for the year then ended in accordance with the 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 the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish the Fund or to cease operations.

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

17 March, 2022

11. OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND


STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE, 2021

	Note	2020/2021	RE-STATED 2019/2020
Description		Kshs	Kshs
Revenue from Non-exchange transactions			
Transfers from other government entities	17.1	-	-
Revenue from exchange transactions			
Interest income earned from deposit	17.2	7,532,547	5,077,387
Interest income earned from loan disbursement	17.3	737,398	-
Total Revenue		8,269,945	5,077,387
Expenses			
Finance Costs-Withholding tax on Interest Income	17.4	(1,129,882)	(761,608)
Interest expensed as administration cost	17.5	(737,398)	-
Total expenses		(1,867,280)	(761,608)
Surplus/(Deficit) for the period		6,402,665	4,315,779

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 29th September 2021 and signed by:



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



 CPA Macklin Ogolla
 ICPAK Member: 4077
 Committee Chair



 CPA Pamela Okatch
 ICPAK Member Number: 7884
 Mortgage Fund Administrator


The notes set out on page 1 to 20 form an integral part of these Financial Statements



12. OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2021

	Note	2020/2021	RE-STATED 2019/2020
		Kshs	KShs
Assets			
Current assets			
Cash and cash equivalents	17.6	208,617,294	154,315,779
Receivables	17.7	52,101,151	-
Total Current Assets		260,718,445	154,315,779
Non-Current Assets		-	-
Total Assets		260,718,445	154,315,779
Liabilities			
Current Liabilities		-	-
Non-Current Liabilities		-	-
Total Liabilities		-	-
Net Assets		260,718,445	154,315,779
Revolving Fund		250,000,000	150,000,000
Accumulated surplus		10,718,445	4,315,779
Total Net Assets and Liabilities		260,718,445	154,315,779

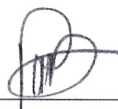
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CPA Dr. Margaret Nyakang'o
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CPA Macklin Ogolla
ICPAK Member: 4077
Committee Chair



CPA Pamela Okatch
ICPAK Member Number: 7884
Mortgage Fund Administrator

13. OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND STATEMENT OF
CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE, 2021

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 st July, 2019	50,000,000	-	-	50,000,000
Surplus/ (deficit) for the period	-	-	4,315,779	4,315,779
Funds received during the year	100,000,000	-	-	100,000,000
Balance as at 30 th June, 2020	150,000,000	-	4,315,779	154,315,779
Balance as at 1 st July, 2020	150,000,000	-	4,315,779	154,315,779
Surplus/ (deficit) for the period	-	-	6,402,665	6,402,665
Funds received during the year	100,000,000	-	-	100,000,000
Balance as at 30 th June, 2021	250,000,000	-	10,718,445	260,718,445

OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2021

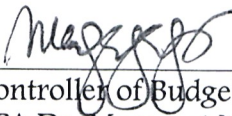
14. OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE, 2021

FY2019/2020	Note	2020/2021	RE-STATED 2019/2020
		Kshs	Kshs
Cash flows from Operating Activities			
Receipts			
Transfers from other government entities	17.1	-	-
Interest income earned from deposit	17.2	7,532,547	5,077,387
Interest income earned from loan disbursement	17.3	737,398	-
Total Receipts		8,269,945	5,077,387
Payments:			
Finance Costs-Withholding tax on Interest Income	17.4	(1,129,882)	(761,608)
Interest expensed as administration cost	17.5	(737,398)	-
Total Payments		(1,867,280)	(761,608)
Net cash flows from operating activities		6,402,665	4,315,779
Cash flows from Investing Activities:			
Loan principal repayments		460,489	-
Loan disbursements paid out		(52,561,640)	-
Net cash flows used in investing activities		(52,101,151)	-
Cash flows from Financing Activities:			
Increase in capital funds (Transfers from NG)	17.1	100,000,000	100,000,000-
Borrowings	17.8	52,101,151	-
Net cash flows used in financing activities		152,101,151	100,000,000
Net increase/(decrease) in cash and cash equivalents		106,402,665	104,315,779
Cash and cash equivalents at 1 JULY	17.6	154,315,779	50,000,000
Cash and cash equivalents at 30	17.6	260,718,445	154,315,779


OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2021

JUNE			
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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 29th September 2021 and signed by:



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



CPA Macklin Ogolla
ICPAK Member: 4077
Committee Chair



CPA Pamela Okatch
ICPAK Member Number: 7884
Mortgage Fund Administrator

15. OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE, 2021

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2020/21	2020/21	2020/21	2020/21	2020/21	2020/21
	KShs	KShs	KShs	KShs	KShs	
Transfers from National Govt.	100,000,000	-	100,000,000	100,000,000	-	100%
Interest Income				8,269,945	(8,268,945)	
Total	100,000,000	-	100,000,000	108,269,945	(8,268,945)	
Expenses						
Finance Costs				1,867,280	(1,867,280)	
Total Expenses	-	-	-	1,867,280	(1,867,280)	
Surplus/(Deficit) for the period	100,000,000	-	100,000,000	106,402,665	(6,401,665)	

The total budget and actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis. The statement of financial performance is presented under IPSAS-Accrual basis thus showing the interest earned to the fund of Kshs 8,269,945 as revenue whereas the statement of comparison of budget is presented under IPSAS-Cash basis with an amount of Kshs 100,000,000 as additional capital to the fund arising from the OCOB recurrent account budget.

Further, the statement of financial performance and statement of comparison of budget shows Kshs 6,402,665 and 106,402,665 respectively as surplus to the fund because of the difference in accounting methods as explained above.

OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2021

16. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

16.1 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.

16.2 Adoption of new and revised standards

a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2021

Standard/ Amendments : Applicable: 1 st January 2021:	Impact
a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks	There was no impact of the amendment to IPSAS 13 with respect to the current financial report
b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved	There was no impact of the amendment to IPSAS 13 and IPSAS 17 with respect to the current financial report as the entity did not apply any of the transitional provisions in the FY 2020/2021
c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.	There was no impact of the amendment to IPSAS 21 and IPSAS 26 with respect to the current financial report as the entity does not have Non-Cash Generating Assets and neither did it have impaired cash generating assets.

OFFICE OF THE CONROLLER OF BUDGET MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2021

<p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard</p>	<p>There was no impact</p>
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b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021

Standard	Effective date and impact:
<p>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2022: The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p>No impact to the OCOB Mortgage Fund</p>

OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND

Reports and Financial Statements

For the year ended June 30, 2021

Standard	Effective date and impact:
IPSAS 42: Social Benefits	<p>Applicable: 1st January 2022</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <ul style="list-style-type: none">(a) The nature of such social benefits provided by the entity;(b) The key features of the operation of those social benefit schemes; and(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows. <p>No impact to the OCOB Mortgage Fund</p>
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<p>Applicable: 1st January 2022:</p> <ul style="list-style-type: none">a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Early adoption of standards

The entity did not early – adopt any new or amended standards in year FY 2020/2021.

16.3 Revenue recognition

Income is recognized in the period it is earned. Income is not accrued if its recoverability is doubtful. The revenue constitutes all incomes accruing to the Fund in the form of interest earned on the unutilized fund. All interest is recouped back to the high interest deposit account on quarterly basis.

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.

16.4 Budget information

The original budget for FY 2020/21 was Kshs 622,982,206. 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. The final approved budget thus stood at Kshs 565,796,771 out of which the Mortgage Fund recorded additional appropriations of Kshs 100,000,000 in the year under review.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OFFICE OF THE CONTROLLER OF BUDGET MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2021

The OCOB 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 1.5 of these financial statements.

16.5 Financial instruments

a) Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

b) Financial liabilities

Loans and borrowing

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

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

OFFICE OF THE CONROLLER OF BUDGET MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2021

16.6 Changes in accounting policies and estimates

IPSAS-3: (IAS 8) Accounting Policies, Changes in Accounting Estimates and Errors is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors.

The standard requires compliance with any specific international financial reporting standard applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis.

Prior period errors are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available and could reasonably be expected to have been obtained and taken into account in preparing those statements. Such errors result from mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

In compliance with this standard, the OCOB restated FY 2019/20 Financial Statements due to oversight.

16.7 Employee benefits – Retirement benefit plans

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

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

OFFICE OF THE CONROLLER OF BUDGET MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2021

16.8 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.

16.9 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.

16.10 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. In this case, the OCOB maintains two accounts at the Housing Finance Corporation of Kenya Ltd. For the purposes of these financial statements, cash and cash equivalents also include short term cash-impressts and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

16.11 Comparative figures

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

16.12 Events after the reporting period

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

16.13 Ultimate and Holding Entity

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

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16.14 Currency

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

16.15 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.

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17. NOTES TO THE FINANCIAL STATEMENT

17.1 Transfers from National Government

Description	2020/21	RE-STATED 2019/20	2019/2020	Remarks
	Kshs	Kshs	Kshs	
Transfers from National Govt. – operations	100,000,000	-	100,000,000	There was a prior year adjustment in the FY 2019/20
	-	-		
Total	100,000,000	-	100,000,000	

In the statement of financial performance for FY 2019/2020, the transfer of Kshs 100,000,000 was adjusted correctly to reflect additional capital to the fund and not revenue from non-exchange transaction as it was earlier stated. Consequently, in the statement of cash flow the same amount was adjusted to form part of cash flows from financing activities since its an increase in capital fund and not cash flow from operating activities as it was previously stated. Thus FY 2019/2020 Financial Statements have been restated as shown in note 11 and 14.

17.2 Interest income

Description	2020/2021	2019/2020
	Kshs	Kshs
Interest income earned on deposits	7,532,547	5,077,387
Total interest income	7,532,547	5,077,387

The Interest Income of Kshs 7,532,547 relates to the total interest earned on the capital sum deposited in the Free Fund (High Interest) Account at an annualized 91-day Treasury Bill Rate minus 1%.

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17.3 Interest income

Description	2020/2021	2019/2020
	Kshs	Kshs
Interest Income earned from mortgage loan disbursed	737,398	-
Total interest income	737,398	-

The interest income of Kshs.737,398 constitutes interest earned from issued mortgage loan.

17.4 Finance costs

Description	2020/2021	2019/20
	KShs	KShs
Withholding tax on interest income	1,129,882	761,608
Total	1,129,882	761,608

Finance costs of Kshs. 1,129,882 relate to the withholding tax on interest income as per the bank statement marked as Annex-I herewith attached.

17.5 Finance costs

Description	2020/2021	2019/20
	KShs	KShs
Interest expensed as Administration fees/costs	737,398	-
Total	737,398	-

Finance costs of Kshs.737,398 relates to the total interest deducted from loan beneficiaries at an approved interest rate of 3% per annum on a reducing balance, all earned and paid as administration costs to the mortgage administrator, the Housing Finance (HF)Ltd as per the existing contract agreement terms.

The interest earned and expensed as administration costs are as analysed cumulatively below:

Deduction Month	Interest Amount Deducted (Kshs)
July, 2020	-
August, 2020	9,310
September, 2020	550
October, 2020	33,393
November, 2020	74,461

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December, 2020	40,804
January, 2021	83,586
February, 2021	66,005
March, 2021	85,488
April, 2021	115,679
May, 2021	107,846
June, 2021	120,277
Total	737,398

17.6 Cash and cash equivalents

Description	Account No.	2020/2021	2019/20
		KShs	KShs
Fixed Deposits Account -OCOB High Interest Account	9289753401-0	208,617,294	154,315,779
On – call deposits (-Back-Up Account)	9289753101-0	52,101,151	-
Total cash and cash equivalents		260,718,445	154,315,779

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

The closing bank balance of Kshs 208,617,293.98 is in the OCOB Scheme High Interest Account and Kshs 52,101,150.61 is in the Scheme Back-up Account. These balances are supported by Certificate of Balance marked as Annex II herewith attached.

17.7 Receivables

Description	2020/2021	2019/20
	KShs	KShs
Loan Disbursements	52,101,151	
Total	52,101,151	-

17.8 Borrowings

Description	2020/2021	2019/20
	KShs	KShs
Loans paid out	52,101,151	-
Total	52,101,151	-

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Financial institution	Account number	2020/2021 KShs	2019/20 KShs
a) Fixed deposits account			
Housing Finance Corporation of Kenya Ltd	928975340 1-0	208,617,294	154,315,779
Sub- total		208,617,294	154,315,779
b) On - call deposits	928975310 1- 0	52,101,151	-
Sub- total		52,101,151	-
Grand total		260,718,445	154,315,779

The scheme back-up account holds funds that are disbursed to the loan beneficiaries. It shall thus at all times have a balance equivalent to the total aggregate disbursed mortgage loan principal amount. The back-up account does not earn interest. During the year under review the balances in the back-up account which is equivalent to total loans disbursed was as analysed below.

OCOB DISBURSED LOANS - FY 2020/2021		
No.	Staff Name	Amount(Kshs.)
1	Nancy Kendi Mutua	7,621,150
2	Ben Simiyu Makhanu	7,100,000
3	Philemon Kosgei Rono	9,000,000
4	George Waweru Tuti	11,100,000
5	Sally Jepkorir Rono	8,000,000
6	Nicodemus Brownley Oyalo	4,985,280
7	Theodora Bosibori Ochichi	1,255,210
8	Denis Ogwel Okungu	3,500,000
	Total Loan Disbursed (a)	52,561,640

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PRINCIPAL LOAN REPAYMENT -FY 2020/2021	
Date	Total Principal Repaid
15/01/2021	160,168
26/04/2021	300,321
Total Principal Repayment (b)	460,489
Total Receivables (c=a-b)	52,101,151

The receivables of Kshs of 52,101,151 as shown in note 16.5 above represents the total loans disbursed of Kshs. 52,561,640 less principal loan repayment of Kshs 460,489 as tabulated above.

17.9 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:

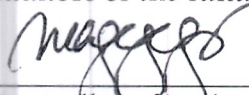
- a) Office of the Controller of Budget
- b) Housing Finance Company of Kenya;
- c) Mortgage Scheme Fund Committee; and
- d) Key management personnel.

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18. 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)

The fund was established in FY 2018/19 and became operational in FY 2019/2020. The audit issue raised in the FY 2019/2020 was resolved and the fund financial statements were reported to present fairly in all material aspects the true financial position of the fund. The auditors of the fund thus, issued an unqualified audit opinion.



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



CPA Macklin Ogolla
 ICPAK Member: 4077
 Committee Chair



CPA Pamela Okatch
 ICPAK Member Number: 7884
 Mortgage Fund Administrator

