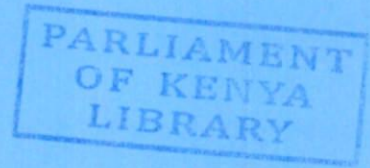


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*Enhancing Accountability*



**REPORT**

**OF**

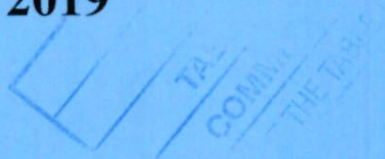
**THE AUDITOR-GENERAL**

**ON**

**KILIFI COUNTY MICROFINANCE  
(MBEGU) FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2019**

23/9/2021  
Sen Samuel Pughina  
Deputy leader  
Kenya  
Mugike



OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
REGISTRY  
15 JAN 2020  
**RECEIVED**

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 95202, MOMBASA  
13 JAN 2020  
**RECEIVED  
COAST HUB**



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**KILIFI COUNTY MICROFINANCE (MBEGU) FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2019**

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

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**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

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**1. KEY ENTITY INFORMATION AND MANAGEMENT**

**a) Background information**

Kilifi County Microfinance (Mbegu) Fund was established under an Act of County Assembly of Kilifi Supplement No. 27 (Kilifi County Acts No. 12) of June 2016, Amended on 1<sup>st</sup> August 2018. The Fund is domiciled in Kenya, Kilifi County and has presence in all the seven Sub Counties within the County namely: Kilifi North, Malindi, Magarini, Kilifi South, Kaloleni, Rabai and Ganze.

The Fund is a semi-Autonomous County government Agency under the Department of Trade, Tourism and Co-operative Development, established with the Key objectives of providing support to Micro and Small Enterprises operating within the County through provision of seed capital, Market linkage and Employment Creation.

**b) Principal Activities**

The Fund has five key mandates as follows:

- (i) To provide access to capital and financial facilities to micro and small enterprises owned by the residents in the County.
- (ii) To support micro and small enterprises to develop linkages with large enterprises.
- (iii) To facilitate marketing of products and services of micro and small enterprises owned by residents in the county in both domestic and international markets.
- (iv) To facilitating investment in small and micro enterprises oriented commercial infrastructure such as business or industrial parks, stalls, markets or business incubators that will be beneficial to the enterprises.
- (v) To provide business development services to micro and small enterprises, and generating gainful self-employment for the residents of Kilifi

**c) Board of Trustees/Fund Administration Committee**

The Fund's day-to-day management is under the following key organs:

- i. County Executive Member for Trade
- ii. Advisory Board
- iii. A Secretariat headed by a Fund Administrator

**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

The following are the members of the KCMF Board who were in office during the financial year ended 30<sup>th</sup> June 2019.

Ref	Name	Position
1	Pastus Frankilin Kitti	Board Chairman
2	Mercy Ngombo Mahoro	Secretary/Fund Administrator
3	Benjamin Kai Chilumo	Member
4	Boniface Oyiengo	Member
5	Amina Ahmed	Member
6	Joseph Karisa Munubi	Member
7	Patience Umazi Tsimba	Member
8	Raphael Kithi Charo	Member

**d) Key Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2019 were:

Ref	Name	Position
1	Mercy Ngombo Mahoro	Fund Administrator
2	Alex Ondeng'	Principal Accountant

**e) Registered Offices**

Department of Trade, Tourism and Cooperative Development  
Kilifi Water Road  
P.O. Box 519  
Kilifi, Kenya

**f) Fund Contacts**

Telephone: (254) 790 465 544  
E-mail: kilificountymicrofinancefund@gmail.com  
Website: <http://www.kilifi.go.ke/>

**g) Fund Bankers**

Cooperative Bank of Kenya Limited  
Kilifi Branch  
P.O. Box 96-80108  
Kilifi, Kenya

**h) Independent Auditors**





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

**i) Principal Legal Adviser**




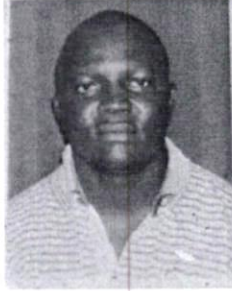
The County Attorney  
County Government of Kilifi  
P.O. Box 519 - 80108  
Kilifi, Kenya

**Kilifi County Microfinance (Mbegu) Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

**2. THE BOARD OF TRUSTEES (or any other corporate governance body for the Fund)**



Name	Details of qualifications and experience
 Pastus F. Kittu <b>Board Chairman</b> DOB 26.03.1952	<p><b>Experience:</b> Over 30 years' experience in the Banking Industry with special interest on Bank Operation and Audit.</p> <p><b>Qualifications:</b> Bachelors of Commerce - Accounting</p>
 Mercy M. Ngombo <b>Fund Administrator</b> BOD 28.01.1991	<p><b>Experience:</b> Over 6 years' experience in both Private and Public Industry with special focus on Women Empowerment, Credit analysis and Credit Risk.</p> <p><b>Qualifications:</b> Master of Business Management – Finance , Bachelors of Business Management – Banking and Finance ,CPA II , AKIB II</p>
 Patience U. Tsimba <b>Trade Representative</b> DOB 15.09.1981	<p><b>Experience:</b> Over 10 years working experience in the Education industry. Currently the Chief Officer For Trade and Tourism. - County Government of Kilifi.</p> <p><b>Qualification:</b> Bachelors of Education Economics</p>
 Benjamin K. Chilumo <b>Finance Representative</b> DOB 22.02.1972	<p><b>Experience:</b> Over 20 years working experience in the Accounting and Finance Industry. He is currently the Chief Officer For Finance – County Government of Kilifi.</p> <p><b>Qualification:</b> MBA – Finance , CPA(K)</p>

**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

 <p>Joseph K. Munubi <b>PLWD Representative</b> DOB 1976</p>	<p><b>Experience:</b> Over 5 years in the Education Industry. Currently working with Kuhenza for the Children Foundation as a program Officer.</p> <p><b>Qualification :</b> Diploma In Information Technology</p>
 <p>Raphael Kiti <b>Youth Representative</b> DOB 16.07.1990</p>	<p><b>Experience:</b> 10 year working experience. He is currently the Fund Coordinator for National Government Affirmative Action Fund – Kilifi County.</p> <p><b>Qualification:</b> Bachelor of Commerce (Accounting and Finance)</p>
 <p>Amina Ahmed <b>Woman Representative</b> DOB 16.12.1960</p>	<p><b>Experience:</b> Over 20 years in the Banking industry, where she rose through the ladder to a Regional Manager in charge of Coast region at KCB She also worked as a commissioner at the Commission on Revenue Allocation and The Chairperson of the Board of Director of KICC</p> <p><b>Qualification:</b> Bachelor of Arts- Economic and French</p>
 <p>Boniface Oyiengo <b>Cooperative Movement Representative</b> DOB: 01.03.1974</p>	<p>Experience – Over 8 years in the Satellite and Communication Industry. Currently is the Station Operation Coordinator (L. Broglio Space Centre, San Marco Project- Malindi). He is the Chairman , San Marco Sacco and also Secretary Malindi Magarini Cooperative Development Committee .</p> <p>Qualification – Diploma In Instrumentation and Control Engineering</p>

**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

**3. MANAGEMENT TEAM**

Name	Main Area of Responsibility
 <p>Mercy Ngombo <b>Fund Administrator</b> BOD 28.01.1991</p>	<ul style="list-style-type: none"> <li>• Responsible for the day to day running of the Fund under the direction and guidance of the Advisory Board.</li> <li>• Facilitate the preparation and implementation of annual work plans, procurement plans, budgets, Performance contract, goals and objectives.</li> <li>• Ensure maintenance of effective internal / external controls so as to safeguard the Fund's assets and oversee financial audit processes as required.</li> <li>• Responsible for providing leadership in the development, execution and achievement of the Fund's strategic objectives.</li> </ul>
 <p>Alex Ondeng' <b>Principal Accountant</b> D.O.B 08.12.1987</p>	<ul style="list-style-type: none"> <li>• Formulation and interpretation of financial policies, strategies and programmes</li> <li>• Effective co-ordination of resource allocation as per the Fund's policies, budgets formulation and budgetary control</li> <li>• Effective administration of the Fund's assets</li> </ul>

**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

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**4. BOARD/FUND CHAIRPERSON'S REPORT**

I am delighted to present the Annual Report and Financial Statements for Kilifi County Microfinance (Mbegu) Fund for the year ended 30<sup>th</sup> June, 2019.

Kilifi County Microfinance (Mbegu) Fund was established by an Act of County Assembly. The main purpose of the Fund is to provide access to capital and financial facilities to MSMEs owned by residents in the County. The Fund Board provides oversight role of the Fund. It consists of seven non-executive members appointed by the Governor. The day to day management of the business and implementation of policy decisions is the responsibility of the Secretariat headed by The Fund Administrator.

The joined effort of the Board, the Secretariat and the Sub-County Teams led to achievement of several milestones in the first year of the life of the Fund (FY2018/2019). In particular, the following were the major milestones in the just concluded financial year.

- Hiring of Fund Secretariat
- Launching of the Fund by H.E the Governor
- Loan disbursements to Groups and Cooperatives Societies to a tune of 28,577,000.
- Loan repayment rate of over 98%

The Fund had been allocated Ksh. 30,000,000 in the 2018/2019 financial year as the initial seed capital, of which 97% (Ksh.29,100,000) was for lending and 3% (Ksh. 900,000) for administration of the Fund. The Fund disbursed 99.1% of its target.

The Fund, like any other entity, had some challenges in the year. They included the following:

- (i) The people of Kilifi County had heard of Mbegu Fund song for long and even when the secretariat was in place and were asked to make fresh loan applications, very few groups responded at first. This however changed after the Fund launch and release of the first loan disbursements.
- (ii) Use of manual system. The Fund is allocated 3% of the loan book for operations. As such, the Fund did not have sufficient funds to procure an accounting and loan management system (software and hardware). This resulted to use of manual system in loan management and financial recording. Manual system has its own inherent challenges.

Getting into its second year of operation, the Fund is set for greater strides. The Fund has been allocated Ksh. 105,000,000 for the FY 2019/2020. We will also be seeking partnerships with other entities which will help in attaining its objectives. In addition to giving loans to Cooperative Societies and Groups, the Fund will be considering LPO financing mainly targeting youth and women entrepreneurs.

As the Chairperson of Kilifi County Microfinance (Mbegu) Fund Board, I would like to thank the Governor, H.E A. J. Kingi, for the establishment of this Fund.

Thank You.

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

Pastus Franklin Kittu

**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

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**5. REPORT OF THE FUND ADMINISTRATOR**

On behalf of the Fund secretariat, it gives me great pleasure to present our annual Report and Financial Statements for the year Ended 30<sup>th</sup> June, 2019.

The Gazettement of the Amended Act on 1<sup>st</sup> August, 2018 Paved way to the operationalization of the Fund. The Fund secretariat staffs were hired in August 2018 to add strength to the team of Sub County Trade Officers and Sub County Cooperative officers spread across the county in implementation of the Fund. With the secretariat on board, the dream of making Mbegu Fund a reality was actualised.

The Fund was launched by H.E. A.J. Kingi, in February 2019. During the launch, the Governor reiterated his government's commitment to support the Micro and Small Enterprises in the county.

**Highlights of the financial Performance for the year 2018/2019**

The Fund had been allocated Ksh. 30,000,000 in the 2018/2019 financial year of which Ksh. 29,100,000 was for lending and Ksh. 900,000 for administration of the Fund as provided by the governing Act. The first loan disbursements were done in January 2019. By End of June 2019, Ksh. 28,577,000 had been disbursed to groups and cooperatives within the county.

- Loan Disbursements

**Table 1: Loan Disbursements**

<b>Parameter</b>	<b>Performance</b>
Amount of Loans Approved & Disbursed	28,577,000
Number of Loans Disbursed	160
Number of group beneficiaries	150
Number of Cooperative Society Beneficiaries	10
Outstanding Loan Balances (as at 30/06/19)	26,951,161

- Loan Recovery/ Collection

**Table 2: Loan recoveries**

<b>Parameter</b>	<b>Performance</b>
Repayment Rate	98%
Amount Collected	1,625,839

- Total Income generated from Management fees on Group and Cooperatives/Sacco Loans Ksh. 1,560,220.

**Kilifi County Microfinance (Mbegu) Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2019**

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The KCMF has been allocated Ksh. 105,000,000 being 1% of the county revenue for the year 2019/2020. With the increased funds allocation, the Fund is set for greater achievements. In addition to increasing its allocation to Groups and Cooperatives, the Fund board is working on introducing other financial products e.g the LPO financing in response to request from many youth and women in the county.

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

Mercy Mahoro Ngombo

**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

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**6. CORPORATE GOVERNANCE STATEMENT**

The Board of Kilifi County Microfinance (Mbegu) Fund is committed to ensure that the Fund operates with integrity and ethics maintaining high standards of Corporate Governance in the interest of its stakeholders. The Board believes that the Fund has complied with the guidelines on Corporate Governance Practices as is required of Public officers.

The Board provides strategic leadership, policy direction and supervision of the Fund. It consists of 7 members.

**6.1 Board Meetings Attendance**

The Board is mandated to hold a minimum of four meetings and a maximum of nine meetings in a year. In the FY 2018/2019 the board held 7 meetings. Below table shows the board meetings attendance details:

**Table 3: Board meeting attendance**

<b>Board Meeting Date</b>	<b>Board Members Presents</b>	<b>Percentage Attendance</b>
9 <sup>th</sup> Nov 2018	4	57%
10 <sup>th</sup> December 2018	5	71%
15 <sup>th</sup> January 2019	5	71%
22 <sup>nd</sup> January 2019	5	71%
27 <sup>th</sup> March 2019	7	100%
17 <sup>th</sup> April 2019	6	85%
28 <sup>th</sup> June 2019	6	85%

The board serves a term of three years and it's eligible for reappointment for one further term. The board members came into office on 10<sup>th</sup> January 2017. Their term will be expiring on 9<sup>th</sup> January 2020. The board chairman however came into office on 25<sup>th</sup> May 2017 and will be in office until 24<sup>th</sup> May 2020.

**6.2 Powers and Functions of the Board**

The powers and functions of the board include the following:

The board shall provide strategic leadership, policy direction and supervision of the Fund. In exercising its mandate, the board is vested with the following powers:

- (i) Power to enter into contracts on matters connected with the Fund
- (ii) Power to establish procedure and guidelines for matters relating to registration of enterprises, loan applications, loan approval and loan recovery

**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

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- (iii) Approve loans and recoveries of matured loans
- (iv) Register small and micro enterprises for purposes of lending on such terms and conditions as the Board may determine.

**6.3 Board Member's Process of Appointment and Removal from Office**

- The four private board members are nominated by the Executive Committee Member of Trade and appointed by the Governor. These are youth representative, woman representative, representative of people living with disability and a representative of the Cooperative movement.
- The chief officer responsible for Trade and the chief officer responsible for Finance are duly nominated in writing.
- The chairperson of the Board is recruited competitively by the County Public Service Board, vetted by the County Assembly and appointed by the Governor.

**6.4 Quorum**

The Quorum for the conduct of business of the Board is four members including the Chairperson or the person presiding over the Meeting.

**6.5 Conflict of interest**

The Regulations guiding the Funds provides that:

- (a) A member who has an interest in any contract, or other matter present at a meeting shall at the meeting and as soon as reasonably practicable after the commencement, disclose the fact thereof and shall not take part in the consideration or discussion of, or vote on, any questions with respect to the contract or other matter, or be counted in the quorum of the meeting during consideration of the matter.
- (b) A disclosure of interest made under subparagraph (a) is to be recorded in the minutes of the meeting at which it is made.
- (c) A member of the Board who contravenes subparagraph (a) commits an offence and is liable to imprisonment for a term not exceeding six months, or to a fine not exceeding one hundred thousand shillings, or both.

**6.6 Board Remuneration**

The board received board sitting allowances in line with the provisions of the PFM Act, 2012 sec 195 (2). In the FY 2017/18, the board held two meetings whose allowances were paid in the FY 2018/19 because the Fund received its first disbursement in the year 2018/19.

Total allowances paid to the board members was Ksh. 481,300 which included allowances paid for the two meetings held in 2017/18.

**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

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**6.7 Tasks to be accomplished**

The following are the tasks to be accomplished in the FY 2019/2020

- (i) Development of board charter
- (ii) Development of the Fund strategic plan
- (iii) Board Member Training

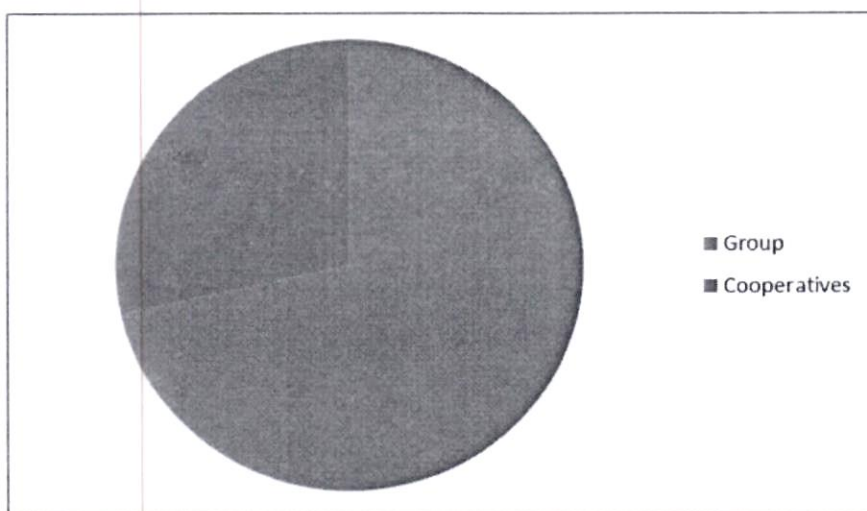
**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

**7. MANAGEMENT DISCUSSION AND ANALYSIS**

The Fund started its operations after the gazette of the Amendment Act on 1<sup>st</sup> August 2019. For the start, the Fund board resolved to start implementing mandate 1 (providing access to capital and financial facilities to micro and small enterprises owned by the residents in the County), of the Fund and roll out the other mandates in subsequent years. On implementation of mandate 1, the Fund began with financing of Groups and Cooperatives Societies.

**7.1 Loan Disbursement**

The disbursement target for the FY 2018/2019 was Ksh. 29,100,000. By June 30<sup>th</sup> 2019, a total of Ksh. 28,577,000 had been approved and disbursed. This implies a performance of 99% of the target. Ksh. 20,377,000.00 was approved for 150 groups while Ksh. 8,200,000.00 was approved for 10 Cooperatives.

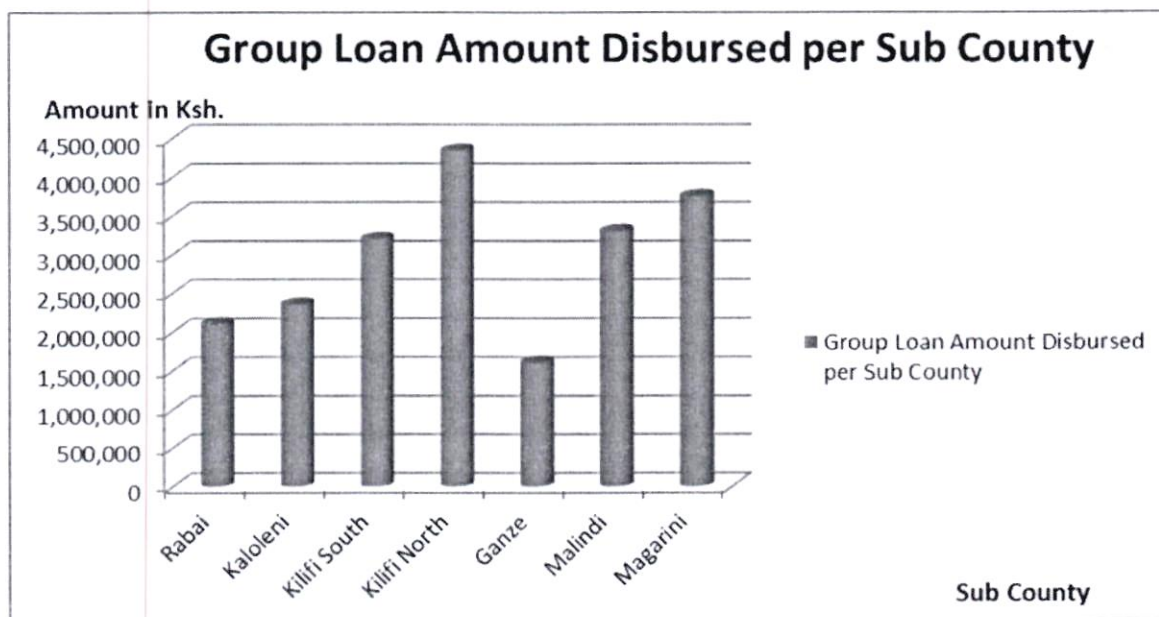


**Fig. 1: Distribution of Loan Disbursements to Groups and Cooperatives**

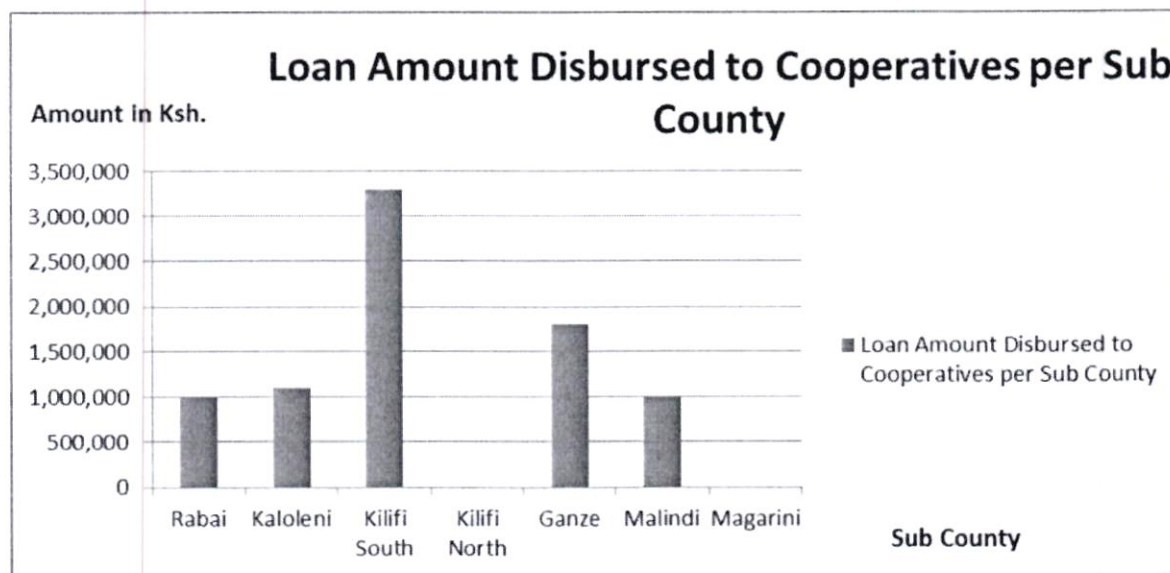
**Table 3: Loan disbursement per Sub County**

Sub County	Group Beneficiaries		Cooperatives	
	Loans Disbursed	No.of Group	Loans disbursed	No.of Cooperatives
Rabai	2,100,000	20	1,000,000	1
Kaloleni	2,350,000	21	1,100,000	3
Kilifi South	3,050,000	22	3,300,000	3
Kilifi North	4,227,000	24	0	0
Ganze	1,600,000	13	1,800,000	2
Malindi	3,300,000	20	1,000,000	1
Magarini	3,750,000	30	0	0
<b>Total</b>	<b>20,377,000</b>	<b>150</b>	<b>8,200,000</b>	<b>10</b>

**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**



**Fig. 2: Group loan amount disbursed per sub county**



**Fig. 3: Loan amount disbursed to cooperatives per Sub County**

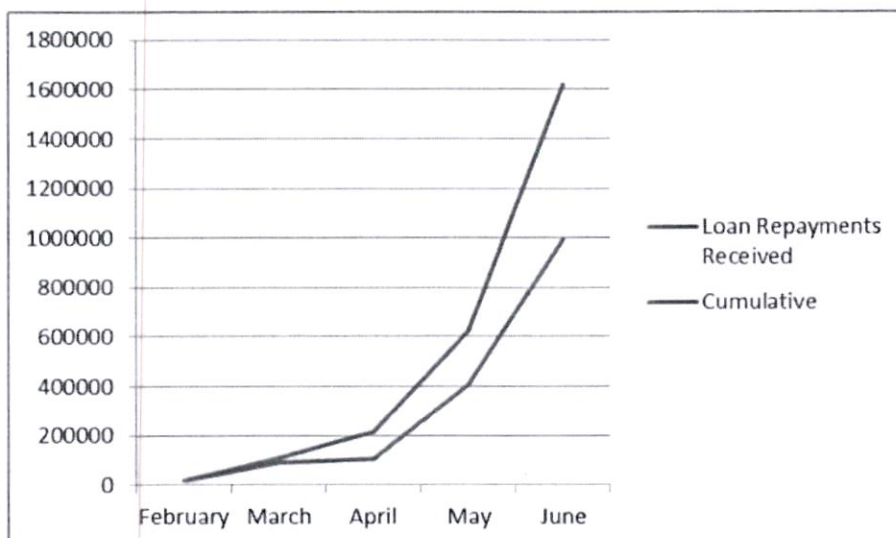
**7.2 Loan Repayments**

Most of the loans issued to beneficiaries will be repaid in 24 months equal instalments. The beneficiaries were given one to three months grace period before starting repaying. As of end of June 2019 The Fund recorded a repayment rate of 98% for the year 2018/2019. A total of Ksh. 1,625,839 was received as loan repayments. The outstanding loan balance stood at Ksh. 28,325,322

**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

**Table 4: Loan repayment performance**

Parameter	Performance
Outstanding Loan Balance (OLB)	26,951,161
Loan Repayments Received	1,625,839
Loan Repayment Rate	98%



**Fig. 4: Loan repayments received by month**

### 7.3 Major Risks Associated with the Fund

The entity's activities expose it to a variety of financial risks including credit risk. 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 is working on policies to ensure that credit is extended to customers who conform to Fund laid down procedures.

Given that risk taking is an inherent activity in our business, responsibility and accountability for risk management dwells at all levels within the organization, from the Advisory Board down through the organisation to each staff member.

#### i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors.

**Kilifi County Microfinance (Mbegu) Fund  
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For the year ended June 30, 2019**

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To address the above risk, the board of directors is in the process of coming up with the Fund's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are mitigated

**7.4 The Future outlook of the Fund**

The Kilifi County Microfinance (Mbegu) Fund (Amendment) Act, 2018 provides that the Fund shall be allocated not less than 1.0% of the total County annual revenue per year for 10 years subject to review and the current loan repayment trend. The sustainability of the Fund is guaranteed. In the financial year 2019/2020, the Fund has been allocated Ksh. 105,000. With the increased funds allocation, the Fund is set for greater achievements. In addition to increasing its allocation to Groups and Cooperatives, the Fund will be introducing the LPO financing loan product in response to request from many youth and women in the county.

The Fund will be seeking to partner with donors whose partnership will contribute to the attaining of the Fund's objectives. The Fund will equally be seeking to source for other sources of income streams to supplement the allocation from the county government.

**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

**8. REPORT OF THE TRUSTEES**

The Trustees submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the Fund affairs.

**Principal activities**

The Fund has five key mandates as follows:

- (vi) To provide access to capital and financial facilities to micro and small enterprises owned by the residents in the County.
- (vii) To support micro and small enterprises to develop linkages with large enterprises.
- (viii) To facilitate marketing of products and services of micro and small enterprises owned by residents in the county in both domestic and international markets.
- (ix) To facilitating investment in small and micro enterprises oriented commercial infrastructure such as business or industrial parks, stalls, markets or business incubators that will be beneficial to the enterprises.
- (x) To provide business development services to micro and small enterprises, and generating gainful self-employment for the residents of Kilifi

**Results**

The results of the Fund for the year ended June 30, 2019 are set out on page 20

**Trustees**

The members of the Board of Trustees who served during the year are shown on page 4. The changes in the Board during the financial year are as shown below:


**Table 5: Changes in the Board**

<b>Those Who Left The Board</b>	<b>Those Who Joined The Board</b>	<b>Position</b>
Mwanawani Sheti	Mercy Ngombo	Fund Administrator

**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 Board

  
\_\_\_\_\_  
Mercy Ngombo  
Member of the Board/Secretary of the Board  
Date: 04/09/2019

**Kilifi County Microfinance (Mbegu) Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

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**9. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES**

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a County Public Fund established by the Kilifi County Microfinance (Mbegu) Fund Act, 2016 amended 2018 shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.


The Administrator of the County Public Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Administrator of the County Public Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the Kilifi County Microfinance (Mbegu) Fund Act, 2016 amended 2018. 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, 2019, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Administrator of the County Public Fund has assessed the Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Administrator to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

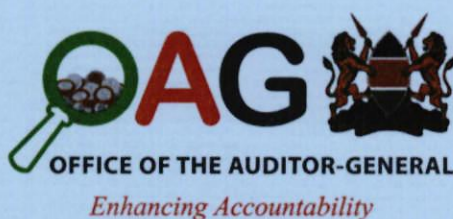
**Approval of the financial statements**

The Fund's financial statements were approved by the Board on 04/09/2019 2019 and signed on its behalf by:

  
\_\_\_\_\_  
Administrator of the County Public Fund

# REPUBLIC OF KENYA

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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON KILIFI COUNTY MICROFINANCE (MBEGU) FUND FOR THE YEAR ENDED 30 JUNE, 2019**

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### REPORT ON THE FINANCIAL STATEMENTS

#### **Opinion**

I have audited the accompanying financial statements of Kilifi County Microfinance (Mbegu) Fund set out on pages 20 to 35, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kilifi County Microfinance (Mbegu) Fund as at 30 June, 2019, 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 Kilifi County Microfinance (Mbegu) Fund Act, 2016 as amended by the Kilifi County Microfinance (Mbegu) Fund (Amendment) Act, 2018 and the Public Finance Management Act, 2012.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kilifi County Microfinance (Mbegu) Fund 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.

## **Other Matter**

### **Budgetary Control and Performance**

According to the statement of comparison of budget and actual amounts, the Fund had an approved revenue budget of Kshs.31,164,000 but realized actual receipts amounting to Kshs.31,544,660 while actual expenditure totaled to Kshs.29,414,281 resulting to an under expenditure of Kshs.2,130,379 or 7% of the realized receipts.

The under expenditure affected the planned activities and could have impacted negatively on service delivery to the public.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1.0 Failure to Establish Procedures and Guidelines of the Fund**

During the year under review, Kilifi Microfinance (Mbegu) Board had not established procedures and guidelines for matters relating to registration of enterprises, loan applications, loan approval and loan recovery. This is contrary to Section 8(c) of the Kilifi County Microfinance (Mbegu) Fund Act, 2016 which requires the Board of Kilifi County Microfinance (Mbegu) Fund to establish procedures and guidelines for matters relating to registration of enterprises, loan applications, loan approval and loan recovery.

In the absence of documented procedures and guidelines, unapproved loans may be advanced or loans may be advanced to ineligible or unregistered applicants without commensurate collateral/security. Further, tracing loan defaulters for possible recovery of loans advanced may prove difficult and expensive to the Fund, thereby threatening its long-term sustainability.

The Management was therefore in breach of the Law.

#### **2.0 Failure to Develop Strategic Plan**

During the year under review, Kilifi County Microfinance (Mbegu) Fund had not formulated a Strategic Plan, contrary to Section 149(2)(g) of the Public Finance Management Act, 2012 which requires an Accounting Officer to prepare a Strategic Plan for the entity in conformity with the medium-term fiscal framework and financial objectives of the County Government.

The Management was therefore in breach of the Law.

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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

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 systems and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **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 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 dissolve 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 entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Kilifi County Microfinance (Mbegu) Fund 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 Kilifi County Microfinance (Mbegu) 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 Kilifi County Microfinance (Mbegu) 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**

**17 September, 2021**

**Kilifi County Microfinance (Mbegu) Fund  
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**11. FINANCIAL STATEMENTS**

**11.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED  
30<sup>th</sup> JUNE 2019**

	Note	2018/2019
		KShs
<b>Revenue from non-exchange transactions</b>		
Public contributions and donations	1	40
Transfers from the County Government	2	900,000
<b>Revenue from exchange transactions</b>		
Other income	3	1,544,620
<b>Total revenue</b>		<b>2,444,660</b>
<b>Expenses</b>		
Fund administration expenses	4	11,900
General expenses	5	826,340
<b>Total expenses</b>		<b>838,240</b>
<b>Surplus/( deficit) for the period</b>		<b>1,606,420</b>


The notes set out form an integral part of these Financial Statements


**Kilifi County Microfinance (Mbegu) Fund  
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**11.2. STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2019**

	Note	2018/2019 KShs
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	6	3,756,218
Current portion of long term receivables from exchange transactions	7	14,933,531
		<b>18,689,749</b>
<b>Non-current assets</b>		
Long term receivables from exchange transactions	7	12,017,630
<b>Total assets</b>		<b>30,707,379</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables from exchange transactions	8	959
<b>Non-current liabilities</b>		
<b>Total liabilities</b>		<b>959</b>
<b>Net assets</b>		<b>30,706,420</b>
Revolving Fund		29,100,000
Accumulated surplus		1,606,420
<b>Total net assets and liabilities</b>		<b>30,706,420</b>

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 04/09/ 2019 and signed by:

  
\_\_\_\_\_  
Administrator of the Fund  
Name: Mercy M. Ngombo

  
\_\_\_\_\_  
Fund Accountant  
Name: Alex Ondeng  
ICPAK Member Number: 16899

**Kilifi County Microfinance (Mbegu) Fund  
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**11.3. STATEMENT OF CHANGES IN NET ASSETS AS FOR THE YEAR ENDED 30<sup>TH</sup>  
JUNE 2019**

	<b>Revolving Fund</b>	<b>Accumulated surplus</b>	<b>Total</b>
		<b>KShs</b>	<b>KShs</b>
<b>Balance as at 1 July 2018</b>	0	0	0
Surplus/(deficit)for the period	0	1,606,420	1,606,420
Funds received during the year	29,100,000	0	29,100,000
<b>Balance as at 30 June 2019</b>	<b>29,100,000</b>	<b>1,606,420</b>	<b>30,706,420</b>

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**11.4. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019**

	Note	2018/2019 KShs
<b>Cash flows from operating activities</b>		
<b>Receipts</b>		
Public contributions and donations	1	40
Transfers from the County Government	2	900,000
Receipts from other operating activities	3	1,544,620
<b>Total Receipts</b>		<b>2,444,660</b>
<b>Payments</b>		
Fund administration expenses	4	11,900
General expenses	5	826,340
<b>Total Payments</b>		<b>838,240</b>
<b>Net cash flows from operating activities</b>		<b>1,606,420</b>
<b>Cash flows from investing activities</b>		
Proceeds from loan principal repayments		1,625,839
Loan disbursements paid out	8	(28,576,041)
<b>Net cash flows used in investing activities</b>		<b>(26,950,202)</b>
<b>Cash flows from financing activities</b>		
Proceeds from revolving fund receipts		29,100,000
<b>Net increase/(decrease) in cash and cash equivalents</b>	6	<b>3,756,218</b>
<b>Cash and cash equivalents at 30 JUNE</b>		<b>3,756,218</b>

**Kilifi County Microfinance (Mbegu) Fund**  
**Reports and Financial Statements**  
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**11.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019**

	Original budget	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2019	2019	2019	2019	2019
	KShs	KShs	KShs	KShs	
<b>Revenue</b>					
Public contributions and donations	0	0	40	(40)	
Transfers from County Govt.	30,000,000	30,000,000	30,000,000	0	
Other income	1,464,000	1,164,000	1,544,620	(380,620)	
<b>Total income</b>	<b>31,464,000</b>	<b>31,164,000</b>	<b>31,544,660</b>	<b>(380,660)</b>	
<b>Expenses</b>					
Fund administrative expenses	0	12,000	11,900.00	100	99%
General expenses	900,000	888,000	826,340.00	61,660	93%
Loans Advanced	29,100,000	29,100,000	28,576,041	523,959	98%
<b>Total expenditure</b>	<b>900,000</b>	<b>30,000,000</b>	<b>29,414,281.00</b>	<b>585,719</b>	<b>98%</b>
<b>Surplus for the period</b>	<b>30,564,000</b>	<b>1,164,000</b>	<b>2,130,379</b>	<b>(966,379)</b>	<b>183%</b>

**Kilifi County Microfinance (Mbegu) Fund  
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**11.6. 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.

**2. Adoption of new and revised standards**

**a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019**

<b>Standard</b>	<b>Impact</b>
<b>IPSAS 40:</b> Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

**b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 41:</b> Financial Instruments	<b>Applicable: 1<sup>st</sup> January 2022:</b> The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their

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Standard	Effective date and impact:
	<p>assessment of the amounts, timing and uncertainty of an entity's future cashflows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul>
<p><b>IPSAS 42: Social Benefits</b></p>	<p><b>Applicable: 1<sup>st</sup> January 2022</b></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> <p>(a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p>

**c) Early adoption of standards**

**Kilifi County Microfinance (Mbegu) Fund  
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The entity did not early – adopt any new or amended standards in year 2019.

**3. 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.

**4. Budget information**

The original budget for FY 2018/2019 was approved by the County Assembly on July 2018. 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 NIL on the FY 2018/2019 budget following the governing body's 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 11.5 of these financial statements.

**5. Financial instruments**

**Kilifi County Microfinance (Mbegu) Fund  
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***Financial assets***

***Initial recognition and measurement***

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

***Loans and receivables***

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

**Kilifi County Microfinance (Mbegu) Fund  
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**6. Nature and purpose of reserves**

The Entity creates and maintains reserves in terms of specific requirements. *The Fund hasn't maintained a reserve account in the financial year 18/19*

**7. Changes in accounting policies and estimates**

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

**8. 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 Board Members, the Fund Manager and Senior credit officers.

**9. 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.

**10. Comparative figures**

This is the first of year of reporting hence there was no comparative figures in the financial statements for the year 2018/2019

**11. Events after the reporting period**

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

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**12. Ultimate and Holding Entity**

The entity is a County Public Fund established by the Kilifi County Microfinance Fund Act, 2016 under the Department of Trade, Tourism and Cooperative Development. Its ultimate parent is the County Government of Kilifi.

**13. Currency**

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

**14. Significant judgments and sources of estimation uncertainty**

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the financial year 2018/2019, there were no judgements, estimates and assumptions made.

**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.

The Fund's financial risk management objectives and policies are detailed below:

**a) Credit risk**

The Fund has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors.

**Kilifi County Microfinance (Mbegu) Fund  
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The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount KShs	Fully performing KShs
<b>At 30 June 2019</b>		
Receivables from exchange transactions	26,951,161	26,951,161
Bank balances	3,756,218	3,756,218
<b>Total</b>	<b>30,707,379</b>	<b>30,707,379</b>

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of trustees sets the Fund's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

**b) Capital risk management**

The objective of the Fund's capital risk management is to safeguard the Fund's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2019 KShs
Revolving fund	29,100,000
Accumulated surplus	1,606,420
<b>Total funds</b>	<b>30,706,420</b>
Less: cash and bank balances	(3,756,218)
Net debt/(excess cash and cash equivalents)	26,950,202

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**11.7. NOTES TO THE FINANCIAL STATEMENTS**

**1. Public contributions and donations**

<b>Description</b>	<b>2018/2019</b>
	<b>KShs</b>
Contributions from the public	40
<b>Total</b>	<b>40</b>

(The Kshs 40 was donated to activate the three accounts and M-pesa paybill)

**2. Transfers from County Government**

<b>Description</b>	<b>2018/2019</b>
	<b>KShs</b>
Transfers from County Govt. – operations	900,000.00
<b>Total</b>	<b>900,000.00</b>

**3. Other income**

<b>Description</b>	<b>2018/2019</b>
	<b>KShs</b>
Management fees	1,544,620
<b>Total other income</b>	<b>1,544,620</b>

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**4. Fund administration expenses**

Description	2018/2019
	KShs
Loan processing costs	11,900
<b>Total</b>	<b>11,900</b>

**5. General expenses**

Description	2018/2019
	KShs
Communication, supplies and services	25,750
Domestic travel and subsistence	160,240
Printing, advertising and information supplies & services	62,000
Hospitality supplies and services	548,100
Office and general supplies and services	25,000
Other expenses	5,250
<b>Total</b>	<b>826,340</b>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6. Cash and cash equivalents**

Description	2018/2019
	KShs
Current account	3,731,684
Others	24,534
<b>Total cash and cash equivalents</b>	<b>3,756,218</b>

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

Financial institution	Account number	2018/2019
		KShs
<b>a) Current account</b>		
Cooperative Bank of Kenya	01141691949200	2,055,389
Cooperative Bank of Kenya	01141691949201	77,470
Cooperative Bank of Kenya	01141691949202	1,598,825
<b>Sub- total</b>		<b>3,731,684</b>
M Pesa		24,534
<b>Sub- total</b>		<b>24,534</b>
<b>Grand total</b>		<b>3,756,218</b>

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**7. Receivables from exchange transactions**

Description	2018/2019
	KShs
<b>Current Receivables</b>	
Current loan repayments due	14,933,531
<b>Total Current receivables</b>	<b>14,933,531</b>
<b>Non Current receivables</b>	
Long term loan repayments due	12,017,630
<b>Total Non- current receivables</b>	<b>12,017,630</b>
<b>Total receivables from exchange transactions</b>	<b>26,951,161</b>

**8. Trade and other payables from exchange transactions**

Description	2018/2019
	KShs
Other payables	959
<b>Total trade and other payables</b>	<b>959</b>