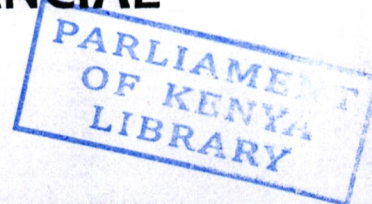


**STAFF MORTGAGE SCHEME
ANNUAL REPORT AND FINANCIAL
STATEMENTS**



**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**



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

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1. KEY SCHEME INFORMATION AND MANAGEMENT

a) i) Background information

The Office of the Auditor-General (OAG) is an Independent Office established under Article 229 of the Constitution of Kenya. The Office is charged with the primary oversight role of ensuring accountability in the use of public resources within the three arms of government (the Legislature, the Judiciary and the Executive) as well as the Constitutional Commissions, Independent Office and any entity that is funded from public funds.

In addition, Article 229(6) of the Constitution requires the Auditor-General to confirm whether public money has been applied lawfully and in an effective way.

This is a broad responsibility that requires the Auditor-General to go beyond accounts certification and compliance. The Auditor-General is therefore, also required to perform work that addresses the economy, efficiency and effectiveness with which public resources have been applied and utilised, including their impact on the lives of citizens.

ii) Staff Mortgage Scheme

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

The Salaries and Remuneration Commission in its circular reference SRC/ADM/CIR/1/13 Vol. III (128) dated 17 December, 2014 provided guidelines for access of Mortgage and Car Loan benefits by state and public officers. Arising therefrom, the Office of the Auditor-General approved and adopted the Guidelines for OAG Staff Car loan and Mortgage Scheme.

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

For proper management of the Scheme and as advised by the SRC in the circular under the reference, the Office of the Auditor-General developed Staff Car loan and Mortgage Scheme Guidelines and adopted the PFM Act, 2012 and PFM Regulations, 2015 to guide in the operationalization of the scheme.

The Office appointed a Management Committee which consists of eight members, including the chairman and a secretary, to undertake the day to day running of the Scheme on behalf of the Accounting Officer. The main role of the committee is to evaluate and approve applications and submit the same for processing by the service provider (Housing Finance Company Ltd) in line with the guidelines.

The Scheme is wholly owned by the Office of the Auditor-General and is domiciled in Kenya.

b) Principal Activities

The principal activity of the Scheme is to provide mortgage loans to the Office of the Auditor-General staff.

c) Scheme Management Committee

S/NO	NAME	NAME
1.	William Agunda	Chairman
2.	Joyce Mbaabu	Vice Chairman
3.	Charles Mwitari	Member
4.	Hannah Mwaura	Member
5.	Mercy Mukiri	Member
6.	Ronald Bichanga	Member
7.	Milcah Ondiek	Member
8.	Ben Muok	Secretary



OUR
VISION

Making a difference in the lives and livelihoods of the Kenyan people.



OUR
MISSION

Audit services that impact on effective and sustainable service delivery.



OUR
VALUES

- INTEGRITY
- CREDIBILITY
- RELEVANCE
- ACCOUNTABILITY
- INDEPENDENCE



OUR
MOTTO

Enhancing Accountability

d) Registered Offices

Entity Headquarters

Office of the Auditor-General
Anniversary Towers 3rd Floor
University Way
P.O. Box 30084-00100
Nairobi, Kenya
Telephone: (254) 020-3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

e) Scheme Contacts

Office of the Auditor-General
P.O. Box 30084-00100
Telephone: (254) 020-3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

f) Scheme Bankers

Housing Finance Company Limited 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

g) Independent Auditors

Ronalds LLP
Certified Public Accountants,
136, Manyani East Road, Off Waiyaki Way
P.O. Box 41331-00100
Nairobi, Kenya.

h) Principal Legal Adviser

Head of Legal Services,
Office of the Auditor-General
Anniversary Towers
P.O. Box 30084-00100
Nairobi, Kenya

2. THE SCHEME MANAGEMENT COMMITTEE



CPA William Agunda

CPA William is the Chairman of the Management Committee. He holds a Bachelor of Commerce degree (Accounting) and is a Certified Public Accountant (K). He has over 30 years' experience in Financial audit in the public sector. Currently, he is the Deputy Auditor General - Financial Audit Services in the Office of the Auditor-General.



CPA Joyce Mbaabu

CPA Joyce is the Vice Chairman of the Management Committee. She holds a Bachelor of Commerce (Business Administration) degree and is a Certified Public Accountant (K). She has over 30 years' experience in Financial audit in the public sector. She is a member of the Association of Women Accountants of Kenya (AWAK) and the Institute of Certified Public Accountants (ICPAK). Currently, she is the Deputy Auditor-General in charge of Corporate Services in the Office of the Auditor-General.



Mr. Ben Muok

Mr. Muok is the Secretary of the Management Committee. He played a central role in the establishment, set up, and operationalization of the Scheme since inception in 2016. He holds a Bachelor of Commerce and a Master of Business Administration in Human Resource Management. He has a wealth of experience in Organizational Development, Change Management and development of policies and strategy frameworks in the public sector spanning over 20 years. Ben is a Practicing member of the Institute of Human Resource Management (Kenya). Currently, he is the Deputy Director Human Resource in the Office of the Auditor-General.



CPA Hannah Mwaura

CPA Hannah is a member of the Management Committee. She holds a Master of Business Management (Strategic Management), Bachelor of Commerce (Business Management) degree and is a Certified Public Accountant (K). Currently, she is a Deputy Director of Audit in the Office of the Auditor-General.

THE SCHEME MANAGEMENT COMMITTEE (CONTINUED)



CPA Charles Mwitari

CPA Charles holds a Bachelor of Commerce degree and a Master's degree in Business Administration. He has over 20 years working experience in private and public sector with particular attention to financial management, budgetary control, statutory and management reporting, Internal controls assessment and risk management. He is a Certified Public Accountant (K), Certified Public Secretary (CPS) and Certified Pension Trustee (TDPK). He currently serves the office as the Director of Audit.



CPA Ronald Bichanga

CPA Ronald was a member of the Management Committee but has since retired. He had over 35 years work experience in Financial Audit in the public sector. He is a Certified Public Accountant (K). He was a Director of Audit in the Office of the Auditor-General.



Milkah Ondiek

Milkah Ondiek is a member of the Management Committee. She holds a Bachelor's degree in Law (LLB) and a post graduate diploma from Kenya School of Law. Currently, she is the Manager Legal services in the Office of the Auditor-General and is the legal advisor to the committee. She is also an Advocate of the High Court of Kenya.



CPA Mercy Mukiri

CPA Mercy is a member of the Management Committee. She holds a Bachelor of Commerce (Business Management) degree and is a Certified Public Accountant (K). She has over 25 years' experience in Financial auditing in the public sector. She is currently a Deputy-Director of Audit in the Office of the Auditor-General.

3. STATEMENT OF PERFORMANCE AGAINST THE SCHEME OBJECTIVES

The key objective of the Scheme is to provide Mortgage to OAG staff.

Objective	Outcome	Indicator	Performance
To provide Mortgage to OAG staff	Enhanced work performance and productivity.	% of staff applicants issued with mortgage	Loans worth Kshs. 102,115,000 were disbursed to staff.

4. FOREWORD



It is with great pleasure that I present to you the Mortgage Scheme financial statements for financial year 2016/2017.

The financial statements present the financial performance of the Scheme over the past financial year. The Scheme was established and operationalized with effect from 13 June, 2016 to enable employees acquire decent residential houses either for their current or ultimate occupation upon retirement. The benefits of the scheme are intended to attract, retain and motivate a competent, effective and efficient workforce and prepare them for a prosperous retirement.

Review of the Scheme's performance

Income

The Scheme received revenues amounting to Kshs. 148,013,321 from both non-exchange and exchange transactions. The income received from non-exchange transaction includes transfer from the National Government of Kshs. 139,813,000 while income of Kshs. 6,673,371 was from interest income in the fixed term deposit account and Kshs 1,526,949.69 was interest from the loanees. Since inception, a total sum of Kshs 209,813,000 has been received from the exchequer for the Mortgage Scheme.

Expenditure

During the year, the Scheme incurred expenses totalling to Kshs 1,526,950 and withholding tax on interest of Kshs 1,001,006 that was charged at a prevailing tax rate of 15% on interest income earned.

Future Outlook of the Scheme

The outlook of the Scheme for FY 2017/2018 is bright. The Office will source for additional funds to make the Scheme sustainable in order to enable employees acquire decent residential houses either for their current or ultimate occupation upon retirement.

The Scheme looks forward to continued support from the National Government and other stakeholders to the realization of its mandate.

Appreciation

I take this opportunity to express my sincere gratitude and appreciation to the National Government, stakeholders, management, staff and Scheme Committee members for their continued support which made us achieve these results.

I look forward to continued support in the year 2017/2018.

Signed: _____

CPA Nancy Gathungu, CBS
Auditor-General

5. CHAIRMAN'S REPORT



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

The Scheme is administered by the Auditor-General through a Management Committee. The role of the Management Committee is to evaluate and recommend applications for processing in line with the regulations. Further, the Auditor-General has enlisted the services of a financial institution (Housing Finance Company Limited) to provide professional advisory services to the Management Committee which includes but not limited to financial, legal and valuation services.

The Scheme was established and operationalized with effect from 13 June, 2016

to enable employees acquire decent residential houses either for their current or ultimate occupation upon retirement. The initial seed capital of Kshs.70 million was transferred to the Housing Finance Company Limited account on 26 May, 2016.

By the end of the financial year 2016/17, a total sum of Kshs 209,813,000 had been transferred from OAG to the Mortgage Scheme. During this period a total of 62 employees applied for mortgage worth Kshs. 418,414,890. However, only 14 applications were approved and loans totalling Kshs. 102,115,000 disbursed.

The main challenges witnessed during the period under review included the following:

- ✓ Inadequate funding.
- ✓ Non-compliance with the requirements by the applicants.
- ✓ Lengthy turnaround/processing time for mortgage applications.

Way forward

The Scheme intends to lobby for additional funding from The National Treasury and the National Assembly and sensitize staff on the mortgage requirements.

I look forward to continued support in the year 2017/2018.

Signed: _____

CPA William Agunda
Committee Chairman

ICPAK Member: 4567

6. CORPORATE GOVERNANCE STATEMENT

THE MORTGAGE SCHEME

The Mortgage 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 (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 Mortgage to members of staff. The Scheme is committed to ensuring compliance with regulatory and supervisory corporate governance requirements. Essential to the establishment of a corporate governance framework in the Scheme is a formal governance structure with the committee at its apex. The operations of the Scheme are governed by OAG Staff Mortgage Scheme Guidelines, PFM Act, 2012, PFM Regulations, SRC Circulars, National Treasury Circulars and any other government legislations.

THE SCHEME MANAGEMENT COMMITTEE

The Management Committee consists of eight members including the Chairman and a secretary, appointed to undertake the day to day running of the Scheme on behalf of the Accounting Officer. The main role of the Committee is to evaluate and approve applications and submit the same for processing by the service provider (Housing Finance Company Limited) in line with the guidelines.

COMMITTEE MEETINGS

The Committee meets quarterly or as required in order to monitor and review the Scheme's operations. The Committee also plays an oversight role over all other financial and operational issues of the Scheme.

STATEMENT OF COMPLIANCE

The Committee confirms that the Scheme has throughout the financial year complied with all statutory and regulatory requirements and that the Scheme 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 Scheme'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 Chairman 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

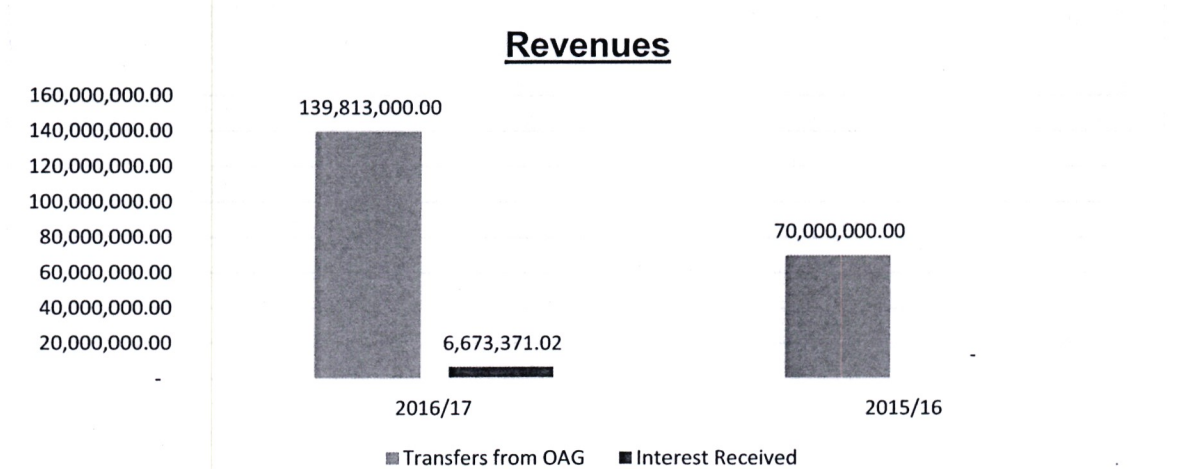
The Scheme is audited by Ronalds LLP as appointed by the National Assembly.

7. MANAGEMENT DISCUSSIONS AND ANALYSIS

The Scheme’s operational and financial performance

The Scheme is administered by the Auditor-General through the Management Committee led by chairman which implements the Committee decisions and policies through action plans and regular meetings.

The Scheme received revenues amounting to **Kshs. 148,013,320.71** from both non-exchange and exchange transactions during the year under review. The income received from non-exchange transaction includes transfer from the National Government of **Kshs 139,813,000.00** while the income earned through exchange transaction was **Kshs. 6,673,371.02** from interest income in the fixed term deposit account and Kshs 1,940,328 being interest received from loanees. Since inception, a total sum of **Kshs 209,813,000.00** has been received from the exchequer for the Mortgage Scheme.



Entity’s Compliance with Statutory Requirements

The Scheme has throughout the financial year complied with all statutory and regulatory requirements and that the Scheme has been managed in accordance with the principles of good corporate governance.

Material Arrears in Statutory/Financial Obligations

The Scheme does not have any known material arrears in statutory/financial obligations as at the reporting date.

The Scheme’s Financial Probity and Serious Governance Issues

There is no case of financial impropriety and governance issues reported to any government agency during the year.

8. 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 i.e. the OAG employees 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 under review, the Scheme did not carry-out any CSR activity.

9. REPORT OF THE SCHEME COMMITTEE

The Office of the Auditor-General submits the report of the Scheme together with the audited financial statements for the year ended June 30, 2017 which show the state of the Scheme's affairs.

Principal activities

The principal activity of the Scheme is to provide Mortgage financing to the OAG members of staff to purchase or construct decent houses for their current or ultimate occupation upon retirement.

Performance

The performance of the Scheme for the year ended June 30, 2017 are set out on pages 19 to 30.

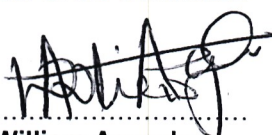
Committee

The members of the Committee are as shown on page v.

Auditors

The Scheme's auditors, Ronalds LLP, who were appointed by the National Assembly during the year to audit the financial statements for the 2016/17 financial year, have expressed their willingness to continue in office.

By Order of the Committee


.....
CPA William Agunda
Committee Chairman

Date: 21/6/2022

10. STATEMENT OF MANAGEMENT’S RESPONSIBILITIES

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

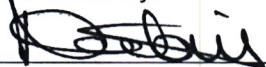
The Accounting Officer in the Office of the Auditor-General is responsible for the preparation and presentation of the Fund’s financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2017. This responsibility 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 Accounting Officer 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 Accounting Officer 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, 2017, and of the Fund’s financial position as at that date. The Accounting Officer further confirms 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 Accounting Officer 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 Accounting Officer 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 Scheme’s financial statements were approved by the Committee on 21/6/20 and signed on its behalf by:



CPA Nancy Gathungu, CBS
Auditor-General

ICPAK Member No: 4893..

**11. REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS OF THE
OFFICE OF THE AUDITOR GENERAL- MORTGAGE SCHEME FOR THE YEAR ENDED 30
JUNE 2017**

Opinion

We have audited the accompanying financial statements of the Office of the Auditor General-Mortgage Scheme set out on pages 19 to 30, which comprise the statement of financial position as at 30 June, 2017, statement of changes in net assets, statement of cash flows and the summary statement of comparison of budget and actual for the year then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Office of the Auditor General-Mortgage Scheme as at June 30, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Public Finance Management Act, 2012.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit financial statements section of our report.

We are independent of the Scheme in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis to our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the Institution's financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following is the Key audit matter to communicate in our report.



**REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS OF THE
OFFICE OF THE AUDITOR GENERAL- MORTGAGE SCHEME FOR THE YEAR ENDED 30
JUNE 2017 (CONT'D)**

Key audit matter (Cont'd)

Key Audit Matter	How the key audit matter was addressed
Revenue recognition– occurrence, completeness and measurement of recorded revenue given the nature and terms of products and IPSAS 9: Revenue from exchange transactions. The occurrence and accuracy of amounts recorded as revenue is an inherent scheme risk due to the complexity systems arising from changes in terms of products and repayment plans – including deposits and high interest account without or with inconsistent terms, loan processing costs, interest repayments and unclear interest rates earned on deposits. We therefore considered revenue recognition to be a matter of most significance in our current year audit.	• We understood and tested the design and operating effectiveness of management's controls over the transfer of revenue information between the front end and the accounting module involved in recording revenue; • We performed analytical review procedures over significant revenue streams by identifying the drivers that resulted in changes year on year to establish detailed monthly and annual expectations. • We selected and tested a sample of enterprise revenue contracts and assessed, in line with the requirements of IPSAS 9: Revenue from exchange transactions, that contracts with employees were valid, that performance obligations were agreed by both parties and that revenue was appropriately recognized; • We examined and assessed the accounting policies applied and disclosures in terms of the recognition of revenue for compliance with IPSAS 9: Revenue from exchange transactions. • We relied on management representation regarding the provisions accuracy. • We reviewed and assessed the reasonableness of management's estimates provided.



**REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS OF THE
OFFICE OF THE AUDITOR GENERAL- MORTGAGE SCHEME FOR THE YEAR ENDED 30
JUNE 2017 (CONT'D)**

Other Information

The Auditor General is responsible for the other information, which comprises key entity information and management, forward by the management committee chairperson and the statement of entity management responsibilities. The other information does not include the financial statements and our Auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Auditor General and those charged with governance for the
Financial Statements**

The Auditor General and those charged with governance are responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis), comply with Public Finance Management Act, 2012. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

In preparing the financial statements, the Auditor General and those charged with governance are responsible for assessing the Office's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management is aware of the intention to dissolve the Office or to cease operations.

Auditors' Responsibility

Our objective is 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement 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.



**REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS OF THE
OFFICE OF THE AUDITOR GENERAL- MORTGAGE SCHEME FOR THE YEAR ENDED 30
JUNE 2017 (CONT'D)**

Auditors' Responsibility (Cont'd)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auditor General and those charged with governance.
- Conclude on the appropriateness of the Auditor General and those charged with governance 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 Office's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to date of our auditor's report. However, future events or conditions may cause the Office to cease as a going concern.
- 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.

We communicate with the Auditor General and those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



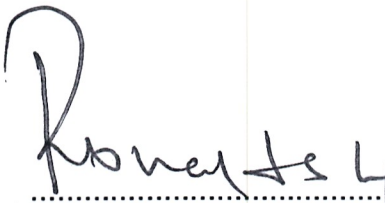
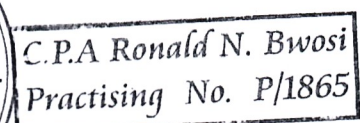
**REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS OF THE
OFFICE OF THE AUDITOR GENERAL- MORTGAGE SCHEME FOR THE YEAR ENDED 30 JUNE
2017 (CONT'D)**

Report on other legal requirements

As required by the Public Finance Management Act, 2012 we report to you, based on our audit that;

- a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- b. In our opinion proper books have been kept by the Office, so far as appears from our examination of those books;
- c. The Office's financial statements are in agreement with the accounting records.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Ronald N. Bwosi – P/No. 1865.


Certified Public Accountants (Kenya)  

12. FINANCIAL STATEMENTS

A. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

		2016/2017	2015/2016
	Note	Kshs	Kshs
Revenue from Non-Exchange Transactions			
Transfers from OAG	1	139,813,000	70,000,000
		139,813,000	70,000,000
Revenue from Exchange Transactions			
Interest Income from deposits	2	6,673,371	-
Interest income from loanees	2	1,526,950	
		6,673,371	-
Total Revenue		148,013,321	70,000,000
Expenses			
Management costs	3	(1,526,950)	-
Other expenses	4	(1,001,006)	-
Total Expenses		(2,527,956)	-
Other Gains/Losses			
Gain/(Loss) on Disposal of Assets		-	-
Net Revenue		145,485,365	70,000,000
Surplus for the Period		5,672,365	-

The notes set out on page 27 to 30 form an integral part of these Financial Statements.

Office of The Auditor-General Mortgage Scheme
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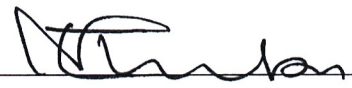
B. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

		2016/2017	2015/2016
	Note	Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, Plant and Equipment		-	-
Intangible Assets		-	-
Total Non-Current Assets		-	-
Current Assets			
Cash & Cash Equivalents	4	116,023,114	70,000,000
Loans Receivable	5	99,462,252	-
Total Current Assets		215,485,365	70,000,000
Total Assets		215,485,365	70,000,000
LIABILITIES			
Non-Current Liabilities		-	-
Current Liabilities		-	-
Total Liabilities		-	-
NET ASSETS		215,485,365	70,000,000
Revolving Fund	6	209,813,000	70,000,000
Reserves		-	-
Accumulated Surplus	7	5,672,365	-
TOTAL EQUITY		215,485,365	70,000,000

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Scheme's financial statements were approved on and signed by:


CPA Nancy Gathungu, CBS
Auditor-General

ICPAK No: 4293


CPA Joyce Mbaabu
Deputy Auditor-General

ICPAK No: 10268

C. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2017

	Revolving Fund	Reserves	Accumulated surplus	Total
	Kshs	Kshs	Kshs	Kshs
Balance as at 1 July 2015	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Funds received during the year	70,000,000	-	-	70,000,000
Revaluation gain	-	-	-	-
Balance as at 30 June 2016	70,000,000	-	-	70,000,000
Balance as at 1 July 2016	70,000,000	-	-	70,000,000
Surplus/(deficit) for the period	-	-	5,672,365	5,672,365
Funds received during the year	139,813,000	-	-	139,813,000
Revaluation gain	-	-	-	-
Balance as at 30 June 2017	209,813,000	-	5,672,365	215,485,365

D. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

		2016/2017	2015/2016
	Note	Kshs	Kshs
Cashflows from Operating Activities			
Receipts			
Transfers from OAG	1	139,813,000	70,000,000
Interest Received	2	6,673,371	-
Interest received from loanees	2	1,526,950	-
Total Receipts		148,013,321	70,000,000
Payments			
Management expenses	2	(1,526,950)	-
Finance Costs		-	-
Other expenses	4	(1,001,006)	-
Total Payments		(2,527,955)	-
Net Cashflow from Operating Activities		145,485,365	70,000,000
Cashflows from Investing Activities			
Purchase of Purchase of property, plant, equipment and intangible assets		-	-
Proceeds from sale of property, plant and equipment		-	-
Proceeds from loan principal repayments		2,652,748	-
Loan disbursements paid out	5	(102,115,000)	-
Net cash flows used in investing activities		(99,462,252)	-
Cash flows from Financing Activities			
Proceeds from revolving fund receipts		-	-
Additional borrowings		-	-
Repayment of borrowings		-	-
Net cash flows used in Financing Activities		-	-
Net increase/(decrease) in cash and cash equivalents		46,023,114	70,000,000
Cash and cash equivalents at 1 July		70,000,000	-
Cash and cash equivalents at 30 June	4	116,023,114	70,000,000

The notes set out on page 27 to 30 form an integral part of these Financial Statements.

E. STATEMENT OF COMPARISON OF BUDGET AND ACTUALS FOR THE PERIOD ENDED 30 JUNE 2017

	Original budget	Change	Final budget	Actual on comparable basis	Performance difference	% utilization
	2016/17	2016/17	2016/17	2016/17	2016/17	2016/17
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Transfers from OAG.	139,813,000	-	139,813,000	139,813,000	-	100%
Interest income from deposits	6,673,371	-	6,673,371	6,673,371	-	100%
Interest income from loanees	1,526,950	-	1,526,950	1,526,950		
Other income	-	-	-	-		-
Total income	148,013,321	-	148,013,321	148,013,321	-	100%
Expenses						
Management costs	1,526,950		1,526,950	1,526,950		
Tax Charges	1,001,006	-	1,001,006	1,001,006	-	100%
Total expenditure	1,001,006	-	1,001,006	1,001,006	-	100%
Surplus for the period	5,672,365	-	5,672,365	5,672,365	-	100%

F. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance and Basis of Preparation

The Scheme'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 Scheme. 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 statement of cash flows is prepared using the direct method. The financial statements are prepared on accrual basis.

Revenue Recognition

a) Revenue from Non-exchange Transactions

Transfers from Office of the Auditor-General

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 Scheme and can be measured reliably.

b) 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.

Budget information

The original budget for the year was approved by the National Assembly and 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 Scheme upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Scheme recorded additional appropriations of Kshs.139,813,000.00 on the FY 2016/2017 budget following the National Assembly approval.

The Scheme'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. A comparison of budget and actual amounts is then presented in the statement of comparison of budget and actual amounts.

Related Parties

The Scheme 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 Scheme, or vice-versa. Members of key management are regarded as related parties and comprise of the Scheme committee.

Cash and cash Equivalents

Cash and cash equivalents comprise 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 Housing Finance Company Limited at the end of the financial year.

Comparative Figures

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

Events after the Reporting Period

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

Ultimate and Holding Entity

The Scheme is established by Section 84 of the Public Finance Management (PFM) Act 2012. Its ultimate parent is the Office of the Auditor-General.

Currency

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

Financial Risk Management

The Scheme's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Scheme'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 Scheme does not hedge any risks and has in place policies to ensure that credit is only extended to staff with an established credit history. The Scheme's financial risk management objectives and policies are detailed below:

a) Credit Risk

The Scheme 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.

b) Capital Risk Management

The objective of the Scheme's capital risk management is to safeguard the Scheme's ability to continue as a going concern. Currently the Scheme has no borrowings.

G. NOTES TO THE FINANCIAL STATEMENTS

1. Transfers from the Office of the Auditor-General

Description	2016/2017	2015/2016
	Kshs	Kshs
Transfers from the Office of the Auditor-General	139,813,000	70,000,000
Total	139,813,000	70,000,000

The Office of Auditor-General transferred Kshs.70 million in 2015/16 at the inception of the Scheme. During the year under review, transfers from the Office of the Auditor-General of **Kshs. 139,813,000** was received by Housing Finance Company Limited- Kenya as follows:

Payment Date	2016/2017	2015/2016
14.06.2016	-	70,000,000
30.09.2016	4,962,050	-
08.10.2016	45,194,450	-
21.11.2016	50,156,500	-
24.03.2017	39,500,000	-
Total	139,813,000	70,000,000

2. Interest income

Description	2016/2017	2015/2016
	Kshs	Kshs
Interest income from Loanees	1,526,950	-
Interest income earned on deposits	6,673,371	-
Total interest income	8,200,321	-

The Interest Income of Kshs. 6,673,371.02 relates to the interest earned on the capital sum deposited in the Scheme account at the Housing Finance Company Limited while the interest of Kshs. 1,526,949.69 was earned from Loanees through payroll recoveries

3. Management Costs

Description	2016/2017	2015/2016
	Kshs	Kshs
Management expenses	1,526,949.69	-
Total	1,526,949.69	-

Management costs of Kshs. 1,526,949.69 relate to the Fund administration expenses paid to Housing Finance Company Limited. All the interest earned from the Loanees that is charged @ 3% per annum is used to pay the Management expenses.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Other expenses

Description	2016/2017	2015/2016
	Kshs	Kshs
Interest on loans from banks	-	-
Withholding Tax on interest income @15%	1,001,006	-
Total	1,001,006	-

Other expenses of Kshs 1,001,006 relate to the withholding tax on interest income charged at 15% of the gross interest earned.

5. Cash and cash equivalents

Description	2016/2017	2015/2016
	Kshs	Kshs
Opening cash and cash equivalent	70,000,000	-
Cash transferred from OAG	139,813,000	-
Loans Issued	(102,115,000)	-
Principal Loan Repaid	2,652,748	-
Surplus ploughed back	5,672,365	-
Total Cash and Cash Equivalents	116,023,114	70,000,000

Detailed Analysis of the Cash and Cash Equivalents are as Follows:

		2016/2017	2015/2016
Financial institution	Account number	Kshs	Kshs
Fixed deposits account			
Housing Finance Company Limited	2054703401	116,023,114	70,000,000
Sub- total		116,023,114	70,000,000
On - call deposits		-	-
Sub- total		-	-
Current account		-	-
Sub- total		-	-
Others(specify)			
Cash in transit		-	-
Cash in hand		-	-
Mpesa		-	-
Sub- total		-	-
Grand total		116,023,114	70,000,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Loan receivables

Description	2016/2017	2015/2016
	Kshs	Kshs
Opening balance	-	-
Loans Issued	102,115,000	-
Less Capital Loans Repaid	(2,652,748)	-
Closing balance	99,462,252	-

7. Revolving Fund

Description	2016/2017	2015/2016
	Kshs	Kshs
Opening balance	70,000,000	-
Transfers from OAG	139,813,000	70,000,000
Closing balance	209,813,000	70,000,000

This relates to the amounts transferred from the Office of the Auditor-General since the inception of the Scheme.

8. Accumulated Surplus

Description	2016/2017	2015/2016
	Kshs	Kshs
Opening balance	-	-
Surplus for the year	5,672,365	-
Closing balance	5,672,365	-

This relates to the surplus amounts for the years since the Scheme's inception.

9. Related party balances

a) Nature of related party relationships

Entities and other parties related to the Scheme 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 scheme is related to the following entities:

- a) Office of the Auditor-General
- b) Mortgage Scheme Committee.
- c) Housing Finance Company Limited

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b) Related party transactions

	2016/2017	2015/2016
	Kshs	Kshs
Transfers from related parties (OAG)	139,813,000	70,000,000
Transfers to related parties-Scheme Committee	8,325,000	-
Total	148,138,000	70,000,000

10. 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 Scheme was established and became operational in FY 2015/16 hence no previous audit done and consequently no follow up of auditor's recommendations.

Guidance Notes:

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