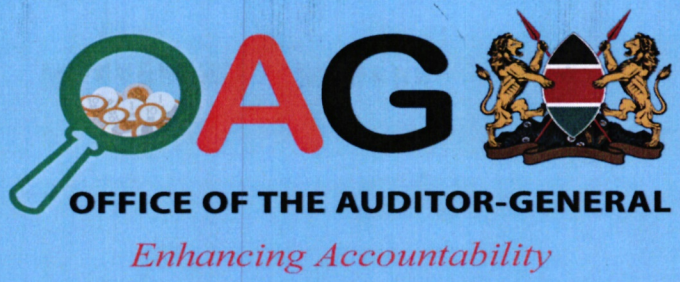
REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

KWALE COUNTY TRADE REVOLVING FUND

FOR THE YEAR ENDED 30 JUNE, 2022

COUNTY GOVERNMENT OF KWALE

KWALE COUNTY TRADE REVOLVING FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2022

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

Table of Content

1. Key Entity Information and Management

a) Background information

Kwale County Trade Revolving Fund is established by and derives its authority and accountability from Kwale trade bill Act of February 2020. The Fund is wholly owned by the County Government of Kwale and is domiciled in Kenya.

The fund's objective is to advance loans (low cost credit) to business people within the county which is repayable within Twenty-Four (24) months.

a. Individual business persons can borrow a minimum of Kshs. 30,000 and a maximum of Kshs.300, 000.

b. Legal persons (companies, cooperative societies and associations) can borrow a minimum of Kshs.300, 000 and a maximum of Kshs.1, 000,000

b) Principal Activities

The principal activity/mission/ mandate of the Fund is to …

i. Develop a capacity building programme to enhance business management and entrepreneurial skills of traders, customized to address the individual needs of such traders;

ii. Provide a business mentoring platform for business people amongst themselves and with specialized experts in business and entrepreneurship disciplines;

iii. Nurture and grow business ideas into tangible businesses and products.

c) Board of Trustees/Fund Administration Committee

Ref	Name	Position
1		
2		
3		
4		
5		

There was no substantive board appointed during the year under review, however arrangements to have a new board are at advanced stage.

d) Key Management

Ref	Name	Position
1	CECM	Nassib Omar Nyahi
2	Chief Officer – Fund Bank Signatory	Hassan Ngalaa Chuphi
3	Fund Bank Signatory	Athuman Mwatunza
4	Fund Manager/ Administrator	Kassim Dzombo
5	Fund Accountant	Joseph Omwenga

e) Registered Offices

P. O. Box 4 – 80403.
Cooperative House
Kombani - Kinango Road

Kwale, KENYA

f) Fund Contacts

Telephone: (254) 040 320 6100
E-mail: info@trade.kwale.go.ke
Website: www.kwalecountygov.com

g) Fund Bankers

Equity Bank (K) Ltd,
P. O. Box 167-80403
Kwale, Kenya.

h) Independent Auditors

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

i) Principal Legal Adviser

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

2. The Board of Trustees /Fund Administration Committee

Name	Details of qualifications and experience
1. 	**Mr Kassim Dzombo :Fund Administrator** Holds a bachelor's degree in Economics and finance from Kenyatta university and CPA (K).Previously worked for the independent election and boundaries commission as a presiding offer and Gliese network investments ltd. Currently serving as a trade development officer at the department of Trade and Enterprise development and fund administrator /secretary.
2. Trustee 2	
3. Trustee 3	
4. Trustee 4	
5. Etc.	

3. Management Team

Name	Details of qualifications and experience
 1.	**Hon. Omar Nassib Nyahi** **CECM Tourism & Enterprise Development** He is a graduate from Kenyatta University and also holds a Master's degree in Hospitality and Tourism management from the same University. Previously worked as a language teacher at Waa boys High School before joining pole man's International Tour Company as a tour leader. Responsible for policy development and strategy.
 2.	**Mr Hassan Ngalaa Chuphi** **Chief Officer Trade & Enterprise Development** Mr Ngalaa holds an MSc in Project Management from JKUAT and BCOM (Accounting) from JKUAT, CPA (K) and a Member of ICPAK. Previously worked for: African Digital Networks DRC Congo, Liquid Telecoms and Lamu Teachers SACCO. Responsible for policy and strategy implementation.
 3.	**Athuman Mwatunza –** Athuman is the County Director of Budget and has over 10 years in the banking industry in various managerial positions. He holds a Masters' degree in Business Administration- Strategic Management and Bachelor's degree in Economics from the University of Nairobi. Responsible for Budget and cash flow management

4. 	**Mr Kassim Dzombo :Fund Administrator** Holds a bachelor's degree in Economics and finance from Kenyatta university and CPA (K).Previously worked for the independent election and boundaries commission as a presiding offer and Gliese network investments ltd. Currently serving as a trade development officer at the department of Trade and Enterprise development. Responsible for loan recovery record management and secretary to the fund.
5. 	**Emmanuel Yongo, Member** He is a graduate from Strathmore University with a Bachelor of Commerce degree in Finance and Business Administration majors. Currently serving as the County Trade Officer and HOD Trade division. Responsible for coordination of loan recovery
6. 	**Mr Joseph Omwenga, Fund Accountant** Holds an MBA from the university of Nairobi , BBA Finance KeMU and CPA(K) Member of ICPAK, has several years' experience with the National government and KRA as Revenue and financial Accountant respectively Currently serving as Principal Accountant Trade and Enterprise. Responsible for the preparation of final accounts of the fund.

4. CECM Report

During the FY 2021/2022, there were no any major changes in the fund management team. The CECM and Chief Officer for Trade and Enterprise Development continued to support the fund management team in carrying out its mandate as stipulate in the revised fund act towards the success of the Fund as any entity. As CECM of the department, I forwarded the recommended names of potential members of the board for consideration by his H.E the Governor.

During the calendar year that ended on 30th June 2022, the fund management managed to recover a total of Ksh 1,283,736 million from loans advanced to various beneficiaries in various wards. There was a significant drop of about 37% compared to Last year which was due to Corona Virus effects on business activities throughout the FY year. Recovery efforts have been frustrated by the pandemic but as management we look forward for a better year 2022/23.

I would like to express my great gratitude to the County Government of Kwale, one of the Key partners and stakeholders through the department of Trade & Enterprise Development that has continued supporting us throughout this turbulent period which has greatly impacted on the fund's performance and continued existence. In the same breadth, I would like to extend my appreciation to the fund management team, our staff and our beneficiaries for their continued support as we navigate through the business turbulence in a world of rapid change. We look forward for more support as we pursue opportunities through innovation and technology in the digitisation of the fund by installing a loan management system.

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Hon Omar Nassib Nyahi

CECM: Tourism, Trade and Enterprise Development

5. Report of the Fund Administrator

I am delighted to inform you that, we now have a Trade Revolving Fund Bill 2020, whose main objective is to provide a mechanism for the establishment of a revolving fund which will promote the development of micro and small enterprises within the county. Equally the bill will provide for an institutional framework for coordinating loan disbursements among beneficiaries.

In the previous financial year, we also reported that, there was a budgetary allocation for the procurement of a fund loan management system. This is therefore to update the management team that, the procurement process was done and a contract was awarded. The scope of the contract includes purchase, delivery, installation, configuration, testing, training, and provision of aftercare services. However configuration and testing has delayed and management is closing following up the issue with the supplier to ensure successful completion of the programme.

The fund management has continued improving on performance by boosting the fund's internal controls. This has been possible due to inclusion of the previous financial years' audit findings and recommendation on staffing, internal controls, tracking of loans and the future deployment of a fund management system.

I wish to thank the County Government of Kwale, the management team and staff for their continued support amidst a turbulent environment which has greatly impacted the fund's performance. I look forward for the continued support despite the hard times ahead of us as occasioned by Covid-19 pandemic and the poor economic conditions of the time.

The digitisation of the Fund's management is likely to help us continue advance loans to our SMEs who have experienced negative growth and a reduction in their cash flows. While some businesses have closed, it is important to note that some have bolstered particularly those in the service and food industry. In Kwale particularly, we are seeing a flow in increased demand for groceries, improved health care provision and financial inclusion.

In the year ahead, we commit to continue supporting the business community in improving our loan products through the repel of loan penalties as stated in the new revised Trade bill of February 2020.

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Kassim Dzombo

Fund Administrator

6. Statement of Performance against the County Fund's Predetermined Objectives

Introduction

Section 164 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each County Government entity Government entities in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the county government entity's performance against predetermined objectives.

The key development objectives of the Kwale County Trade Revolving fund 2018-2022 plans are to:

a) Availing low cost credit facilities to traders
b) Promoting the Cooperative Development

Progress on attainment of Strategic development objectives
Below we provide the progress on attaining the stated objectives:

Support vehicle for the fund programs especially loan recovery.	Purchase of Vehicle
Kwale County Trade Revolving Fund (Low cost credit to SMEs in Kwale) for all wards	Reviewed the Loan Fund Act and in process of Revival of the Fund operationalization
Establishment of Biashara Centres (BDS) in all wards to promote training in business management and start up	The parent department has already managed to construct four centres in Kwale, Kinango, Ukunda and Lunga Lunga
The major challenge facing the fund is poor loan repayment which is likely to result into bad loans among the loan beneficiaries.	The parent department(Trade) has put in place appropriate measures in order to fast track the recovery: Involvement of Chiefs and ward administrators of various wards.

7. Corporate Governance Statement

In the year under review, the management team met thrice with all members in attendance including the CECM and Chief Officer while some of the meetings were attended by other employees of the department –.

The management team is committed to high standards of corporate governance, which it considers critical to public fund's financial integrity and maintenance of stakeholders' trust. The Fund expects all its members and employees to act with honesty, integrity, and fairness. The Fund will strive to act in accordance with the legislations and customs governing the Fund; adopt proper standards of public fund's practice and procedure; and operate with integrity.

The management will keep its work and performance under regular review and will revisit the governance principles annually. It is important to note that a substantive board is yet to be appointed. However potential names have been forwarded to the relevant authority for consideration following the expiry of the term of the previous board.

The management team has put in place all the necessary measures to ensure the future board members shall be independent and compliance to Chapter Six of the constitution or otherwise as provided for in the Trade Fund Act of 2020.

The management team provides leadership of the Fund and, either directly or through the operation of committees, brings an independent judgment on all issues of strategy, performance, resources mobilization (including key appointments) and standards of conduct.

The management team sets the Fund's strategic objectives which management implements through regular approval and monitoring of work plans and the budget prepared by the fund administrator. The work plan specifies key developments towards the strategic objectives that are to be achieved by management within an agreed time frame.

8. Management Discussion and Analysis

During the financial period under review, the fund had no budget to be used in disbursing loans to various potential applicants; however an appropriate amount will be set aside during the supplementary budget to cater for loan disbursements once the new board is put in place. The loan recovery exercise continued to perform on a low base due to the covid-19 effects on the country's general economy.

The management is in the process of purchasing a loan management system that will assist the loan recovery team in maintaining accurate and reliable records that will be used in the preparation of future annual financial statements. Steadfast was identified as the supplier and is in the process of installing the system which is expected to be operational towards the end of the year 2022.

The funds compliance to the statutory requirements is well demonstrated through the various organs and legislations established: this include the trade revolving fund Act 2020, the credit manual finance management guidelines, Kwale trade revolving fund policy of 2014 and submission of annual financial statements to the office of the Auditor general for audit verification.

The issue of non-performing loans is a serious thread towards effective and efficient loan portfolio management. Given the fact the fund is a revolving fund whose future sustainability depends on the cash flows from loan recoveries especially the principal amount. However as a mitigation the management has continued to improve on its accumulated surplus by recording an additional surplus of Kshs 3,698,638.This brings the total amount of the accumulated surplus in the statement of financial position to Kshs 40,998,003.

9. Environmental and Sustainability Reporting

The fund exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on three pillars: putting the customer/Citizen first, delivering relevant goods and services and improving on operational excellence. Below is a brief highlight of our achievements in each pillar.

1. Sustainability strategy and profile

Trade revolving fund that promotes small businesses and entrepreneurs in the county. Providing business skill by training traders and other business people through the Biashara centres established in the county. Through such engagements, the target business community is able to build and develop a strong capital base for business expansion and future sustainability, growth and diversification of revenue streams.

2. Environmental performance

Waste management policy and efforts to reduce the indirect impact of the organisation's products and activities. Ensuring proper garbage disposal in all business places of operation especially those businesses that deal in fresh produce and plastic bottles that are used in packaging of water and other drinks like soda and juice. An agency like the National Environment Management Authority plays a very critical role.

3. Employee welfare

Nomination of members into the board management committee takes into account the gender ratio, while public participation is taken as part of the stakeholder engagement and it's done regularly. Staff Members are taken for short courses at Kenya school of for training in order to improve on their skills and managing careers. Appraisal and reward systems are done annually. The fund has a safety policy which is compliant with Occupational Safety and Health Act of 2007.

4. Market place practices

The organisation should outline its efforts to:

a) **Responsible competition practice.**

The loan products advanced to various beneficiaries are done within the financial framework of country as regulated by the central bank of Kenya. Responsible political involvement through the county assembly of Kwale by the elected members who do their oversight roll and fair competition and respect for competitors who offer similar products like banks and other microfinance institutions operating in Kwale county.

b) **Responsible Supply chain and supplier relations**.

The department is quite responsible in terms of Supply chain and supplier relations by ensuring that suppliers and contractors are paid on a timely basis upon completion of their obligation as per the contract terms and conditions. All supplies and contracts are either advertised on the local daily newspapers or uploaded in the county website for all interested potential suppliers and contractors. Bidders are properly evaluated through the ifmis system and successful bidders are awarded work in a transparent process.

c) **Responsible marketing and advertisement**

The loan products are advertised locally through local chiefs and ward administrators of the county government of Kwale to ensure proper flow of information to all potential applicants.

d) **Product stewardship**

The loan products advanced to the beneficiaries are based on well-defined criteria and evenly distributed in all wards within the county of Kwale at a low interest rate.

5. **Community Engagements**

Business models through the four Biashara centres namely Kwale, Kinango, Mvindeni and lunga lunga. This centres forms part of the Community Social Investments which promotes education and good business ethics within society, staff training and development.

10. Report of the Management Team

The management team submits their report together with the financial statements for the year ended June 30, 2022 which show the state of the Fund affairs.

The principal activities of the Fund are and *continue to be* advancing loans (low cost credit) to business people within the county repayable within Twenty-Four (24) months.

Results

The results of the Fund for the year ended June 30, 2022 are set out on page ....

Trustees

The members of the management team who served during the year are shown on page Vii to Viii there were no changes in the management during the financial year under review.

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 Management Team

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Kassim Dzombo

Fund Administrator

Date: 22nd Sept 2022

11. 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 the Kwale County Trade Revolving *Fund Act 2020* 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 Kwale Trade Revolving 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, 2022. 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 Kwale Trade Revolving 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 Kwale County Trade Revolving Fund Act of 2020.* 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, 2022, 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 Kwale Trade Revolving 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 Management on 22nd SEPT 2022 and signed on its behalf by:

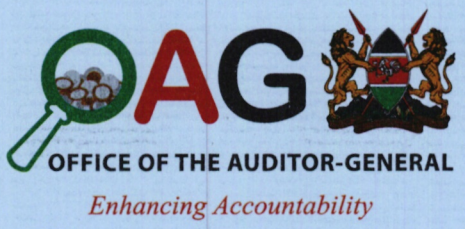
.....

Kassim Dzombo

Administrator of the Fund

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON KWALE COUNTY TRADE REVOLVING FUND FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kwale County Trade Revolving Fund set out on pages 1 to 39, which comprise the statement of financial position as at

30 June, 2022, 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, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kwale County Trade Revolving Fund as at 30 June, 2022, 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 Kwale County Trade Revolving Act, 2014 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

Long -Term Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 12 to the financial statements reflects current portion of long-term receivables from exchange transactions and long-term receivables from exchange transactions balances of Kshs.3,286,433 and Kshs.108,724,702 respectively, all totalling to Kshs.112,011,135. However, records provided for audit review indicated that as at 30 June, 2022, the Fund Management had stopped disbursing funds to applicants after disbursing a total of Kshs.123,488,000. Further, the Management did not provide debtors' ageing analysis for audit review nor made any provision for bad and doubtful debts.

In the circumstances, the accuracy and completeness of the long-term receivables from exchange transactions balance of Kshs.112,011,135 and recoverability of Kshs.123,488,000 as at 30 June, 2022 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kwale County Trade Revolving Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget of Kshs.3,828,366 compared to actual revenue of Kshs.412,325 (or 11%), resulting in under collection of Kshs.3,416,041 (or 89%). Further, the Fund had an expenditure

budget of Kshs.15,000 and actual expenditure of Kshs.120 (or 1%), resulting in under expenditure of Kshs.14,880 (or 99%).

The significant under collection of revenue is a pointer to slow rate of loans repayment by beneficiaries and ineffective debt collection. The under expenditure of 99% means the Fund Management did not disburse any funds to loans applicants during the year under review, hence the Fund did not achieve its objective.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Fund Committee Members Serving on Expired Terms in Office

Records provided for audit review and a disclosure under other information in the financial statements, indicate that the Board of Trustees/Fund Administration Committee comprising seven (7) members were appointed on 9 December, 2015 for a term of three (3) years, renewable once in accordance with Section 8 of the Kwale County Trade Revolving Fund Act, 2014. It was however noted that the Members' term of office expired in December, 2018 but have continued serving on the Committee and there was no documentary evidence to confirm renewal of their service.

In the circumstances, Fund Management was 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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the Board of Trustees

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 liquidate 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.

The Board of Trustees is responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to sustain its services.

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

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

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

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

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

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

01 March, 2023

13. Statement of Financial Performance for the Year Ended 30th June 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
Revenue From Non-Exchange Transactions			
Public Contributions and Donations	1	-	-
Transfers From the County Government	2		
Fines, Penalties and Other Levies	3	-	-
Revenue From Exchange Transactions			
Interest Income	4	3,698,758	3,483,602
Other Income	5	-	-
		3,698,758	**3,483,602**
Total Revenue			
Expenses			
Employee Costs	6		
Use of goods and services/ Fund Expenses	7	120	2,408,640
Depreciation and Amortization Expense	8		
Finance Costs	9		
Total Expenses		**120**	**2,408,640**
Other Gains/Losses			
Gain/Loss on Disposal of Assets	10		
Surplus/(Deficit) For The Period		**3,698,638**	**1,074,962**

(The notes set out on pages 20 to 30 form an integral part of these Financial Statements)

.....
Kassim Dzombo
Administrator of the Fund

.....
CPA Joseph Omwenga
Fund Accountant
ICPAK Member Number:5976

14. Statement of Financial Position as At 30 June 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash Equivalents	11	27,798,247	26,510,631
Current Portion of Long- Term Receivables From Exchange Transactions	12	3,286,433	2,680,619
Prepayments	13	-	
Inventories	14	-	-
Total Current Assets		**31,084,680**	**29,191,250**
Non-Current Assets			
Property, Plant and Equipment	15	-	-
Intangible Assets	16	-	-
Long Term Receivables from Exchange Transactions	12	108,724,702	106,915,494
		108,724,702	**106,915,494**
Total Assets		**139,809,382**	**136,106,744**
Liabilities			
Current Liabilities			
Trade and Other Payables from Exchange Transactions	17	17,500	13,500
Provisions	18	-	-
Current Portion of Borrowings	19	-	-
Employee Benefit Obligations	20	-	-
		17,500	**13,500**
Non-Current Liabilities			
Non-Current Employee Benefit Obligation	20	-	-
Long Term Portion of Borrowings	19	-	-
Total Liabilities		**17,500**	**13,500**
Net Assets		**139,791,882**	**136,093,244**
Revolving Fund		98,793,879	98,793,879
Reserves		-	-

Accumulated Surplus		40,998,003	37,299,365
Total Net Assets and Liabilities		**139,791,882**	**136,093,244**

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 22nd Sept 2022 and signed by:

.....
Kassim Dzombo
Administrator of the Fund

.....
CPA Joseph Omwenga
Fund Accountant
ICPAK Member Number:5976

15. Statement of Changes in Net Assets for the year ended 30th June 2022

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		Kshs	Kshs	Kshs
Balance As At 1 July 2020	**98,793,879**	-	**36,224,403**	135,018,282
Surplus/(Deficit) For the Period	-	-	**1,074,962**	1,074,962
Funds Received During the Year	-	-	-	-
Transfers	-	-	-	-
Revaluation Gain				
Balance As At 30 June 2021	**98,793,879**	-	**37,299,365**	**136,093,244**
			-	
Balance As At 1 July 2021	**98,793,879**	-	37,299,365	**136,093,244**
Surplus/(Deficit) For the Period		-	3,698,638	3,698,638
Funds Received During the Year	-	-	-	-
Transfers	-	-	-	-
Revaluation Gain				
Balance As At 30 June 2022	**98,793,879**	-	**40,998,003**	139,791,882

(Provide details on the nature and purpose of reserves)

.....
Kassim Dzombo
Administrator of the Fund

.....
Joseph Omwenga
Fund Accountant
ICPAK Member Number:5976

16. Statement of Cash Flows for the Year Ended 30 June 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Public contributions and donations		-	-
Transfers from the county government		-	-
Interest received		412,325	802,983
Receipts from other operating activities			-
Total receipts		**412,325**	**802,983**
Payments			
Fund administration expenses		(120)	(2,408,640)
General expenses		-	-
Finance cost			-
Other payments			
Total Payments		**(120)**	**(2,408,640)**
Net cash flows from operating activities	21	416,205	(1,592,157)
Cash flows from investing activities			
Purchase of property, plant, equipment and Intangible assets		-	-
Proceeds from sale of property, plant & equipment			-
Proceeds from loan principal repayments		871,411	1,231,173
Loan disbursements paid out			-
Net cash flows used in investing activities		**871,411**	**1,231,173**
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 & cash Equivalents		**1,287,616**	(360,984)
Cash and cash equivalents at 1 July	11	**26,510,631**	26,871,615
Cash and cash equivalents at 30 June	11	**27,798,247**	26,510,631

(IPSAS 2 allows an entity to present the cash flow statement using the direct or indirect method but encourages the direct method. PSASB also recommends the use of direct method of cash flow preparation. The above illustration assumes direct method)

.....
Kassim Dzombo
Administrator of the Fund

.....
CPA Joseph Omwenga
Fund Accountant
ICPAK Member Number:5976

17. Statement of Comparison of Budget and Actual Amounts for the Period

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% Utilization
	2022	2022	2022	2022	2022	2022
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Public Contributions And Donations	-	-	-	-	-	
Transfers From County Govt.	-	-	-	-	-	0%
Interest Income	3,828,366	-	3,828,366	412,325	3,416,041	11%
Other Income	-	-	-	-	-	0%
Total Income	**3,828,366**	-	**3,828,366**	**412,325**	**3,416,041**	**11%**
Expenses						
Fund Administration Expenses						
General Expenses	-	-	-	-	-	-
Finance Cost/Bank charges	15,000	-	15,000	120	14,880	0%
Total Expenditure	**15,000**		**15,000**	**120**	**14880**	**1%**
Surplus For The Period				**412,205**		

Budget notes

1. *There was no any expenditure since there was no board in place to sanction any activities that will require usage of funds. IPSAS 24.14*
2. *There were no changes between original and final budget due to reallocations or other causes. (IPSAS 24.29)*
3. *Where the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis, statement of financial performance is accrual) provide a reconciliation.*

18. Notes to the Financial Statements

1. General Information

Kwale County Trade Revolving Fund is established by and derives its authority and accountability from the Kwale Trade Bill of February 2020. The entity is wholly owned by the Kwale County Government and is domiciled in Kenya. The entity's principal activity is to advance loans (low cost credit) to business people within the county which is repayable within Twenty-Four (24) months.

2. 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.

3. Adoption of new and revised standards

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2022

IPSASB deferred the application date of standards from 1st January 2022 owing to Covid 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2023.

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	**Applicable: 1st January 2023:** The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:

Standard	Effective date and impact:
	• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. *(State the impact of the standard to the Entity if relevant)*
IPSAS 42: Social Benefits	**Applicable: 1st January 2023** 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: (a) The nature of such social benefits provided by the Entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows. *(State the impact of the standard to the Entity if relevant)*
Amendments to Other IPSAS resulting from	**Applicable: 1st January 2023:** a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.

Standard	Effective date and impact:
IPSAS 41, Financial Instruments	b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued. ***(State the impact of the standard to the Entity if relevant)***
Other improvements to IPSAS	***Applicable 1st January 2023*** • *IPSAS 22 Disclosure of Financial Information about the General Government Sector.* Amendments to refer to the latest System of National Accounts (SNA 2008). • *IPSAS 39: Employee Benefits* Now deletes the term composite social security benefits as it is no longer defined in IPSAS. • **IPSAS 29: Financial instruments: Recognition and Measurement** Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023. ***State the impact of the standard to the Entity if relevant***
IPSAS 43	***Applicable 1st January 2025*** The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.

Standard	Effective date and impact:
	The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities. *State the impact of the standard to the Entity if relevant*
IPSAS 44: Non-Current Assets Held for Sale and Discontinued Operations	***Applicable 1st January 2025*** The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance. *State the impact of the standard to the Entity if relevant*

(iii)Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2022.

4. Significant Accounting Policies

a) Revenue recognition

i. Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

ii. Revenue from exchange transactions

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information

The original budget for FY 2021-2022 was approved by the County Assembly on 30 June 2021. 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. However the Fund did not record any additional appropriations during the FY 2021-2022.

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 xxx of these financial statements.

Summary of Significant Accounting Policies (Continued)

c) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

d) Intangible Assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

e) Financial instruments

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.

Summary of Significant Accounting Policies (Continued)

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are 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. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

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

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

Summary of Significant Accounting Policies (Continued)

f) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

g) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Summary of Significant Accounting Policies (Continued)

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

h) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. *Entity to state the reserves maintained and appropriate policies adopted.*

i) 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.

j) Employee benefits – Retirement benefit plans

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

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

k) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

Summary of Significant Accounting Policies (Continued)

l) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

m) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

n) 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.

o) Comparative figures

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

p) Events after the reporting period

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

q) Ultimate and Holding Entity

The entity is a County Public Fund established by Kwale County Trade Revolving Fund Bill 2020 under the department of Trade and Enterprise Development. Its ultimate parent is the County Government of Kwale.

r) Currency

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

Summary of Significant Accounting Policies (Continued)

5. 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.

State all judgements, estimates and assumptions made e.g.

a) Estimates and assumptions – The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140.

b) Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

c) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Notes; there were no provisions made during the year.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

6. Notes to the Financial Statements

1. Public contributions and donations

Description	2021-2022	2020-2021
	Kshs	Kshs
Donation From Development Partners		
Contributions From The Public		
Total	-	-

(Provide brief explanation for this revenue)

2. Transfers from County Government

Description	2021-2022	2020-2021
	Kshs	Kshs
Transfers From County Govt. –Operations		
Payments By County On Behalf Of The Entity		
Total	-	-

3. Fines, penalties and other levies

Description	2021-2022	2020-2021
	Kshs	Kshs
Late Payment Penalties		
Fines		
Total	-	-

(Provide brief explanation for this revenue)

4. Interest income

Description	2021-2022	2020-2021
	Kshs	Kshs
Interest Income From Mortgage Loans		
Interest Income From Car Loans	**3,698,758.00**	3,483,602.00
Interest Income From Investments	-	-
Interest Income On Bank Deposits		
Total Interest Income	**3,698,758.00**	**3,483,602.00**

(Provide brief explanation for this revenue)

Notes to the Financial Statements Continued

5. Other income

Description	2021-2022	2020-2021
	Kshs	Kshs
Insurance Recoveries		
Income From Sale Of Tender Documents		
Miscellaneous Income		
Total Other Income	-	-

(NB: All income should be classified as far as possible in the relevant classes and other income should be used to recognise income not elsewhere classified).

6. Employee Costs

Description	2021-2022	2020-2021
	Kshs	Kshs
Salaries And Wages		
Staff Gratuity		
Staff Training Expenses		
Social Security Contribution		
Other *(Specify)*		
Total	-	-

7. Use of Goods and Services

Description	2021/22	2020/21
	Kshs.	Kshs.
General Office Expenses		
Loan Processing Costs		
Professional Services Costs		
Administration Fees		
Committee Allowances		
Bank Charges	120	1,800
Electricity And Water Expenses		
Fuel And Oil Costs		
Insurance Costs		
Postage And Courier		
Printing And Stationery		

Description	2021/22	2020/21
	Kshs.	Kshs.
Rental Costs		
Security Costs		
Telephone And Communication Expenses		
Audit Fees		
Provision For Doubtful Debts		
Other general expenses	-	2,406,840
Total	120	2,408,640

8. Depreciation and Amortization Expense

Description	2021/22	2020/21
	Kshs.	Kshs.
Property Plant and Equipment		
Intangible Assets		
Total	-	-

9. Finance costs

Description	2021-2022	2020-2021
	Kshs	Kshs
Interest On Bank Overdrafts		
Interest On Loans From Banks		
Total	-	-

10. Gain/(loss) on disposal of assets

Description	2021-2022	2020-2021
	Kshs	Kshs
Property, Plant And Equipment		
Intangible Assets		
Total	-	-

Notes to the Financial Statements Continued
11. Cash and cash equivalents

Description	2021-2022	2020-2021
	Kshs	Kshs
Car Loan Account		
County Mortgage Account		
Fixed Deposits Account		
On – Call Deposits		
Current Account	27,498,247	26,510,631
Cash	300,000	-
Others		
Total Cash And Cash Equivalents	**27,798,247**	**26,510,631**

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

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

		2021-2022	2020-2021
Financial Institution	**Account number**	**Kshs**	**Kshs**
a) **Fixed Deposits Account**			
Kenya Commercial Bank			
Equity Bank, Etc.		-	-
Sub- Total			
b) On - Call Deposits			
Kenya Commercial Bank		-	-
Sub- Total			
c) Current Account			
Equity Bank	158-0263360-237	27,498,247	26,510,631
Sub- Total	-	**27,498,247**	**26,510,631**
d) Others			
Cash In Transit			
Cash In Hand		300,000	-
Sub- Total		**300,000**	-
Grand Total		**27,798,247**	**26,510,631**

12. Receivables from exchange transactions

Description	2021-2022	2020-2021
	Kshs	Kshs
Current Receivables		
Interest Receivable	3,286,433	2,680,619
Current Loan Repayments Due	-	-
Other Exchange Debtors	-	-
Less: Impairment Allowance	(-)	(-)
Total Current Receivables	**3,286,433**	**2,680,619**
Non-Current Receivables		
Long Term Loan Repayments Due	**108,724,702**	**106,915,494**
Total Non- Current Receivables	**108,724,702**	**106,915,494**
Total Receivables From Exchange Transactions	**112,011,135**	**109,596,113**

Additional disclosure on interest receivable

Description	2021-2022	2020-2021
	Kshs	Kshs
Interest Receivable		
Interest receivable from current portion of long-term loans of previous years	3,286,433	2,680,619
Accrued interest receivable from of long-term loans of previous years	33,028,792	30,348,173
Interest receivable from current portion of long-term loans issued in the current year		
Current loan repayments due		
Current portion of long-term loans from previous years	-	-
Accrued principal from long-terms loans from previous periods	75,695,910	76,567,321
Current portion of long-term loans issued in the current year	-	-

13. Prepayments

Description	2021-2022	2020-2021
	Kshs	Kshs
Prepaid Rent		
Prepaid Insurance		
Prepaid Electricity Costs		
Other Prepayments (Specify)		
Total	-	-

14. Inventories

Description	2021-2022	2020-2021
	Kshs	Kshs
Consumable Stores		
Spare Parts And Meters		
Catering		
Other Inventories (Specify)		
Total Inventories At The Lower Of Cost And Net Realizable Value	-	-

Notes To The Financial Statements (Continued)

15. Property, plant and equipment

	Land and Buildings	Motor vehicles	Furniture and fittings	Computers and office equipment	Total
Cost	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**
At 1st July 2020	-	-	-	-	-
Additions					
Disposals					
Transfers/Adjustments					
At 30th June 2021	-	-	-	-	-
At 1st July 2021					
Additions					
Disposals					
Transfer/Adjustments					
At 30th June 2022	-	-	-	-	-
Depreciation And Impairment					
At 1st July 2020					
Depreciation					
Impairment					
At 30th June 2021					
At 1st July 2021	-	-	-	-	-
Depreciation					
Disposals					
Impairment					

Cost	Land and Buildings	Motor vehicles	Furniture and fittings	Computers and office equipment	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Transfer/Adjustment					
At 30th June 2022					
Net Book Values					
At 30th June 2021					
At 30th June 2022	-	-	-	-	-

Notes To The Financial Statements (Continued)

16. Intangible assets

Description	2021-2022	2020-2021
	Kshs	Kshs
Cost		
At Beginning Of The Year		
Additions		
At End Of The Year		
Amortization And Impairment		
At Beginning Of The Year		
Amortization		
At End Of The Year		
Impairment Loss		
At End Of The Year		
NBV		

17. Trade and other payables from exchange transactions

Description	2021-2022	2020-2021
	Kshs	Kshs
Trade Payables		
Refundable Deposits		
Accrued Expenses		
Other Payables	17,500.00	13,500.00
Total Trade And Other Payables	**17,500.00**	**13,500.00**

18. Provisions

Description	Leave provision	Bonus provision	Other provision	Total
	Kshs	Kshs	Kshs	Kshs
Balance At The Beginning Of The Year (1.07.2021)				
Additional Provisions				
Provision Utilised				
Change Due To Discount And Time Value For Money				
Transfers From Non -Current Provisions				
Balance At The End Of The Year	-	-	-	-

(30.06.2022)				

Notes To The Financial Statements (Continued)

19. Borrowings

Description	2021-2022	2020-2021
	Kshs	Kshs
Balance At Beginning of The Period		
External Borrowings During the Year		
Domestic Borrowings During the Year		
Repayments Of External Borrowings During the Period		
Repayments Of Domestics Borrowings During the Period		
Balance At End of The Period	-	-

The table below shows the classification of borrowings into external and domestic borrowings:

	2021-2022	2020-2021
	Kshs	Kshs
External Borrowings		
Dollar Denominated Loan From Organisation		
Sterling Pound Denominated Loan From Organisation		
Euro Denominated Loan from Organisation		
Domestic Borrowings		
Kenya Shilling Loan From KCB		
Kenya Shilling Loan from Barclays Bank		
Kenya Shilling Loan from Consolidated Bank		
Borrowings From Other Government Institutions		
Total Balance at End Of The Year	-	-

The table below shows the classification of borrowings long-term and current borrowings:

Description	2021-2022	2020-2021
	Kshs	Kshs
Short Term Borrowings(Current Portion)		
Long Term Borrowings		
Total	-	-

(NB: the total of this statement should tie to note 18 totals. Current portion of borrowings are those borrowings that are payable within one year or the next financial year. Additional disclosures on terms of borrowings, nature of borrowings, security and interest rates should be disclosed)

Notes To The Financial Statements (Continued)

20. Employee benefit obligations

Description	Defined benefit plan	Post employment medical benefits	Other Provisions	2021-2022	2020-2022
	Kshs	Kshs	Kshs	Kshs	Kshs
Current Benefit Obligation					
Non-Current Benefit Obligation					
Total	-	-	-	-	-

21. Cash generated from operations

	2021-2022	2020-2021
	Kshs	Kshs
Surplus/ (Deficit) For the Year Before Tax	3,698,638	1,074,962
Adjusted For:		
Depreciation		
Amortisation	-	-
Gains/ Losses On Disposal Of Assets		
Interest Income		
Finance Cost		
Working Capital Adjustments		
Increase In Inventory		
Increase In Receivables	(3,286,433)	(2,680,619)
Increase In Payables	4,000	13,500
Net Cash Flow From Operating Activities	**416,205**	**(1,592,157)**

(The total of this statement should tie to the cash flow section on net cash flows from operating activities)

Other Disclosures

22. Related party balances

a) Nature of related party relationships

Entities and other parties related to the Fund include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members. The fund/scheme is related to the following entities:

a) The County Government;
b) The Parent County Government Ministry;
c) Key management;
d) Board of Trustees; etc

b) Related party transactions

	2021-2022	2020-2021
	Kshs	Kshs
Transfers From Related Parties'		
Transfers To Related Parties	-	-

c) Key management remuneration

	2021-2022	2020-2021
	Kshs	Kshs
Board Of Trustees		
Key Management Compensation		
Total	-	-

d) Due from related parties

	2021-2022	2020-2021
	Kshs	Kshs
Due From Parent Ministry		
Due From County Government		
Total	-	-

Other Disclosures Continued

e) Due to related parties

	2021-2022	2020-2021
	Kshs	**Kshs**
Due To Parent Ministry		
Due To County Government		
Due To Key Management Personnel		
Total	-	-

23. Contingent assets and contingent liabilities

Contingent Liabilities	2021-2022	2020-2021
	Kshs	**Kshs**
Court Case Against The Fund		
Bank Guarantees		
Total	-	-

(Give details)

Other Disclosures Continued

24. 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. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the entity's management based on prior experience and their assessment of the current economic environment.

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**	**Past due Kshs**	**Impaired Kshs**
At 30 June 2022				
Receivables From Exchange Transactions	112,011,135			
Receivables From Non-Exchange Transactions				
Bank Balances	27,798,247			
Total	**139,809,382**			
At 30 June 2021				
Receivables From Exchange Transactions	109,596,113			

Receivables From Non Exchange Transactions				
Bank Balances	26,510,631			
Total	**136,106,744**			

(NB: The totals column should tie to the individual elements of credit risk disclosed in the entity's statement of financial position)

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 entity has significant concentration of credit risk on amounts due from loan borrowers.

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) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Fund Administrator, who has built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Fund under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	**Between 1-3 months**	**Over 5 months**	**Total**
	Kshs	**Kshs**	**Kshs**	**Kshs**
At 30 June 2022				
Trade Payables				
Current Portion Of Borrowings				
Provisions				
Employee Benefit Obligation				
Total				
At 30 June 2021				
Trade Payables	-	-	-	-

Current Portion Of Borrowings				
Provisions				
Employee Benefit Obligation				
Total	-	-	-	-

c) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Fund's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

i. Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

		Other currencies	**Total**
	Kshs	**Kshs**	**Kshs**
At 30 June 2021			
Financial Assets			
Investments			
Cash			
Debtors/ Receivables			
Liabilities			

Trade And Other Payables			
Borrowings			
Net Foreign Currency Asset/(Liability)	-	-	-

The Fund manages foreign exchange risk form future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

Foreign currency sensitivity analysis

The following table demonstrates the effect on the Fund's statement of financial performance on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	**Effect on surplus/ deficit**	**Effect on equity**
	Kshs	**Kshs**	**Kshs**
2022			
Euro	10%		
USD	10%	-	-
2021			
Euro	10%		
USD	10%	-	-

ii. Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The entity's interest rate risk arises from bank deposits. This exposes the Fund to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Fund's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The Fund analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign

foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs xxx (2022: KShs xxx). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs xxx (2021 – KShs xxx)

d) 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:

	2021-2022	2020-2021
	KShs	KShs
Revaluation reserve		
Revolving fund		
Accumulated surplus		
Total funds		
Total borrowings		
Less: cash and bank balances		
Net debt/(excess cash and cash equivalents)		
Gearing	0%	0%

19. Progress on follow up of prior year Auditor's Recommendations

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

Reference No. on the external audit Report	Issue/ Observation from Auditor	Management comments	Status (Resolved / Not resolved)	Timeframe
4.1 of 2021	Illegitimate Board of Trustees/fund administration committee	The fund Board of trustee time has expired and management has recommended names for appointment by the Governor	Not Resolved	By January 2023
4.2 of 2021	Long overdue uncollected loans amount Kshs 109,596,113	True the amount of uncollected loans is huge, however management will organise a loan recovery budget to first track recovery	Not Resolved	By December 2025

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.

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Fund Administrator
Date: 22/09/2022