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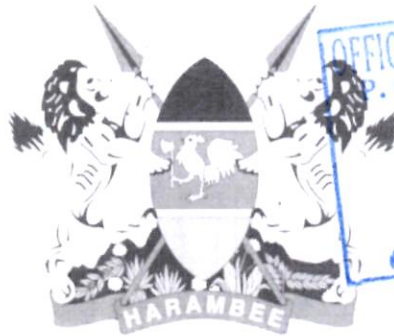
THE AUDITOR-GENERAL

ON

**KILIFI COUNTY MICRO-FINANCE
(MBEGU) FUND**

**FOR THE YEAR ENDED
30 JUNE, 2020**





KILIFI COUNTY MICROFINANCE (MBEGU) FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020**

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

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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

Kilifi County Microfinance (Mbegu) Fund is established by and derives its authority and accountability from Kilifi County Microfinance Fund Act on 10th June 2016. The Fund is wholly owned by the County Government of Kilifi and is domiciled in Kenya.

The fund's objective is to provide support to Micro and Small Enterprises operating within the County through provision of seed capital, Market linkage and Employment Creation.

b) Principal Activities

The Fund has five key mandates as follows:

(i) To provide access to capital and financial facilities to micro and small enterprises owned by the residents in the County.

(ii) To support micro and small enterprises to develop linkages with large enterprises.

(iii) To facilitate marketing of products and services of micro and small enterprises owned by residents in the county in both domestic and international markets.

(iv) To facilitating investment in small and micro enterprises oriented commercial infrastructure such as business or industrial parks, stalls, markets or business incubators that will be beneficial to the enterprises.

(v) To provide business development services to micro and small enterprises, and generating gainful self-employment for the residents of Kilifi

c) Board of Trustees/Fund Administration Committee

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

d) Key Management

Ref	Name	Position
1	Mercy Ngombo Mahoro	Fund Administrator
2	Dorotia Wandoe	Senior Accountant
3	Jane Mutula	Principal Procurement Officer

e) Registered Offices

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

f) Fund Contacts

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

g) Fund Bankers

1. Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya
2. Cooperative Bank of Kenya Limited
Kilifi Branch
P.O. Box 96-80108
Kilifi, Kenya

h) Independent Auditors

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





i) Principal Legal Adviser

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

2. THE BOARD OF TRUSTEES

Name	Details of qualifications and experience
 <p>Pastus F. Kittu Board Chairman DOB 26.03.1952</p>	<p>Experience: Over 30 years' experience in the Banking Industry with special interest on Bank Operation and Audit. Qualifications: Bachelors of Commerce - Accounting</p>
 <p>Mercy M. Ngombo Fund Administrator BOD 28.01.1991</p>	<p>Experience: Over 6 years' experience in both Private and Public Industry with special focus on Women Empowerment, Credit analysis and Credit Risk. Qualifications: Master of Business Management – Finance, Bachelors of Business Management – Banking and Finance, CPA II, AKIB II</p>
 <p>Mary C. Mukare Trade Representative DOB 24.03.1968</p>	<p>Experience: Over 25 years working experience in the public service. Currently Chief Officer: Trade, Tourism and Cooperative Development. Qualification: Masters in Development</p>
 <p>Benjamin K. Chilumo Finance Representative DOB 22.02.1972</p>	<p>Experience: Over 20 years working experience in the Accounting and Finance Industry. He is currently the Chief Officer For Finance – County Government of Kilifi. Qualification: MBA – Finance . CPA(K)</p>

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

3. STATEMENT OF PERFORMANCE AGAINST COUNTY ENTITY'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 Kilifi County Microfinance (Mbegu) Fund 2019-2020 plan were to:




- a) Disburse loans worth Ksh. 110,058,597 to groups, cooperatives and entrepreneurs through LPO financing
- b) Attain a loan repayment rate of at least 75%
- c) Attain a PAR of below 30%
- d) Develop the Fund's Strategic Plan

Progress on attainment of Strategic development objectives

Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
Credit	Disburse loans worth Ksh. 110,058,597	Loans disbursed benefiting targeted sectors	Amount Disbursed	Ksh. 65,661,200 disbursed to groups and Cooperatives
Credit	Attain a Repayment rate of 75%	Good quality loan portfolio	Repayment rate	Repayment rate of 95% attained
Credit	Attain a PAR below 30%	Good quality loan portfolio	PAR	PAR of 8.2% attained.
Governance	Develop Strategic Plan for the Fund	Strategic Plan 2020-2023 developed	Availability of the Strategic Plan document	Strategic plan available in print and soft copies.

4. MANAGEMENT TEAM

Name	Details of qualifications and experience
 <p>Mercy Ngombo Fund Administrator DOB 28.01.1991</p>	<p>Experience: Over 6 years' experience in both Private and Public Industry with special focus on Women Empowerment, Credit analysis and Credit Risk.</p> <p>Qualifications:</p> <ul style="list-style-type: none"> • Master of Business Management – Finance, • Bachelors of Business Management – Banking and Finance, <p>CPA II, AKIB II</p>
 <p>Dorothia Wandoe Senior Accountant D.O.B 20.11.1989</p>	<p>Experience: 7 years' experience working with the County government</p> <p>Qualifications:</p> <ul style="list-style-type: none"> • Master of Business Management – Strategic Management • Bachelors of Business Management – Finance and Banking <p>CPA K</p>
 <p>Jane Mutula Principal Procurement Officer D.O.B 21.02.1980</p>	<p>Work experience: Kenya Red Cross Society of Kenya Mombasa Branch logistics and procurement volunteer August 2015 to February 2016; International Centre for reproductive health Kenya Procurement Officer March 2016- December 2018; County Government of Kilifi January 2019 to date</p> <p>Qualifications:</p> <ul style="list-style-type: none"> • Bachelor's degree in Business Management (Purchasing and supplies option) from Mount Kenya university <p>Diploma in Business Management (Purchasing and supplies option) from Kenya institute of management.</p>
<p><i>Note: The Fund Administrator will feature under both the 'Board' and 'Management'.</i></p>	

5. BOARD/FUND CHAIRPERSON'S REPORT

I am delighted to present the Annual Report and Financial Statements for Kilifi County Microfinance (Mbegu) Fund for the year ended 30th June, 2020.

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

The joined effort of the Board, the Secretariat and the Sub-County Teams led to achievement of several milestones in the second year of the life of the Fund (FY2019/2020). In particular, the following were the major milestones.

- Development of three years Fund's Strategic Plan
- Loan disbursements to Groups and Cooperatives Societies to a tune of 65,661,200
- Loan repayment rate of 95%

The Fund had been allocated Ksh. 105,000,000 in the 2019/2020 financial year as seed capital, of which 97% (Ksh. 101,850,000) was for lending and 3% (Ksh. 3,150,000) for administration of the Fund. The Fund disbursed 65,661,200 being 64% of the allocation.

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

- (i) The impact of the corona virus pandemic. The Fund's operations were greatly affected by the corona virus pandemic in loan repayments and loan disbursement. Many MSEs businesses which our members invested in were either temporarily closed or flow of customers reduced. Ban of people gatherings resulted to members of funded groups not being able to hold their meetings in which they make their contributions and discuss group matters. Partial lock down of three coastal counties (Kilifi, Mombasa and Kwale) greatly affected the business chain of some businesses since these counties are interdependent in many ways. Closure of or scaling down of operation by some companies resulted to sending of their employees on unpaid compulsory leave which has greatly affected the shares contribution inflow of the employer based SACCOs funded by the Fund.
- (ii) Use of manual system. The Fund is allocated 3% of the loan book for operations. As such, the Fund did not have sufficient administrative allocation to procure an accounting and loan management system (software and hardware). This resulted to use of manual system in loan management and financial recording. Manual system has its own inherent challenges.

The Fund is getting into its third year of its operation. The Fund's operations will be guided by its 3 years strategic plan currently in place. We will be seeking partnerships with other stakeholders which will help in attaining its objectives. The Fund will be considering launching of individual loan product mainly targeting youth and women entrepreneurs.

Thank You.

Signed: 
Pastus Franklin Kitti

6. REPORT OF THE FUND ADMINISTRATOR

On behalf of the Fund secretariat, it gives me great pleasure to present our annual Report and Financial Statements for the year Ended 30th June, 2020.

The Fund was in its second year of operation. The financial year recorded a massive growth in almost all parameters. The year however had its fair package of challenges, the most pronounced being the Corona virus pandemic. The protocols put in place by the government in curbing the spread of the disease really affected the performance of the Fund against its targets.

Highlights of the financial Performance for the year 2019/2020

The Fund had been allocated Ksh. 105,000,000 in the 2019/2020 financial year of which Ksh. 101,850,000 was for lending and Ksh. 3,150,000 for administration of the Fund as provided by the county assembly Act governing the Fund.

- Loan Disbursements

Table 1: Loan Disbursements

Parameter	Performance			
	2018/2019	2019/2020	Difference	% Change
Amount of Loans Approved & Disbursed	28,577,000	65,661,200	37,084,200	130%
Number of Loans Disbursed (Total)	160	413	253	158%
Number of group beneficiaries	150	406	256	171%
Number of Cooperative Society Beneficiaries	10	7	-3	-30%
Outstanding Loan Balances beginning of FY	0	26,951,161	26,951,161	N/A
Outstanding Loan Balances close of FY	26,951,161	71,311,483	44,360,322	165%

- Loan Recovery/ Collection

Table 2: Loan recoveries

Parameter	Performance
Repayment Rate	95%
Amount Collected	21,300,898

- Total Income generated from Management fees on Group and Cooperatives/Sacco Loans Ksh. 3,523,672.

**Kilifi County Microfinance (Mbegu) Fund
Reports and Financial Statements
For the year ended June 30, 2020**

The KCMF has provided for Ksh. 201,800,197 for loan advances from total expected revenue of Ksh. 208,041,441 for the year 2020/2021 as per the approved budget. With the increased funds allocation, the Fund is set for greater achievements.

Signed: _____



Mercy Mahoro Ngombo

7. CORPORATE GOVERNANCE STATEMENT

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

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

7.1 Board Meetings Attendance

The Board is mandated to hold a minimum of four meetings and a maximum of nine meetings in a year. In the FY 2019/2020 the board held 8 meetings. Below table shows the board meetings attendance details:

Table 3: Board meeting attendance

Board Meeting Date	Board Members Presents	Percentage Attendance
23 rd July 2019	5	71%
12 th September 2019	4	57%
8 th October 2019	6	85%
3 rd December 2019	6	85%
31 st January 2020	6	85%
21 th May 2020	8	100%
27 th May 2020	8	100%
9 th June 2020	5	71%

KCFM Act provides that the Fund board serves a term of three years eligible for reappointment for one further term.

The current board members are serving their second term effective from 10th January, 2020. The board chairman is equally serving his second term effective from 25th May, 2020.

7.2 Powers and Functions of the Board

The powers and functions of the board include the following:

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

- (i) Power to enter into contracts on matters connected with the Fund
- (ii) Power to establish procedure and guidelines for matters relating to registration of enterprises, loan applications, loan approval and loan recovery
- (iii) Approve loans and recoveries of matured loans
- (iv) Register small and micro enterprises for purposes of lending on such terms and conditions as the Board may determine.

7.3 Board Member's Process of Appointment and Removal from Office

- The four private board members are nominated by the Executive Committee Member for Trade and appointed by the Governor. These are youth representative, woman representative, representative of people living with disability and a representative of the Cooperative movement.
- The county chief officer responsible for Trade and the county chief officer responsible for Finance.
- The chairperson of the Board is recruited competitively by the County Public Service Board, vetted by the County Assembly and appointed by the Governor.
- A member of the Board may be removed from office on any one or more of the following grounds:
 - a) Lack of integrity
 - b) Gross misconduct
 - c) Violation of the Constitution or any other law
 - d) Physical or mental incapacity to perform the functions of the office
 - e) Missing three consecutive meetings without a reasonable cause
 - f) Incompetence during the period in office

7.4 Quorum

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

7.5 Conflict of interest

The Regulations guiding the Funds provides that:

- (a) A member who has an interest in any contract, or other matter present at a meeting shall at the meeting and as soon as reasonably practicable after the commencement, disclose

the fact thereof and shall not take part in the consideration or discussion of, or vote on, any questions with respect to the contract or other matter, or be counted in the quorum of the meeting during consideration of the matter.

- (b) A disclosure of interest made under subparagraph (a) is to be recorded in the minutes of the meeting at which it is made.
- (c) A member of the Board who contravenes subparagraph (a) commits an offence and is liable to imprisonment for a term not exceeding six months, or to a fine not exceeding one hundred thousand shillings, or both.

7.6 Board Remuneration

The board received board sitting allowances in line with the provisions of the PFM Act, 2012 sec 195 (2). Total allowances paid to the board members was Ksh. 462,000.

7.7 Tasks to be accomplished

The following are the tasks to be accomplished in the FY 2020/2021

- (i) Development of board charter
- (ii) Board Member Training
- (iii) Development of the Credit Policy

Acquisition and Installation of A loan Management System



8. MANAGEMENT DISCUSSION AND ANALYSIS

The Fund started its operations after the gazettelement of the Amendment Act on 1st August 2018. For the start, the Fund board resolved to start implementing mandate 1 (providing access to capital and financial facilities to micro and small enterprises owned by the residents in the County), of the Fund and roll out the other mandates in subsequent years. On implementation of mandate 1, the Fund began with financing of Groups and Cooperatives Societies. In this financial year under review, the Fund introduced LPO financing loan product.

The onset of the Corona Virus in the country in mid-March 2020 greatly impacted the performance of the Fund. The protocols put in place by the government as measurers of fighting the spread of the virus greatly affected our clients who are largely in the MSEs Sector.

8.1 Loan Disbursement

The disbursement target for the FY 2019/2020 was Ksh. 110,058,190. By June 30th 2020, a total of Ksh. 65,661,200 had been approved and disbursed. This implies a performance of 59.5% of the target. Ksh. 58,961,200.00 was approved for 406 groups while Ksh. 7,100,000.00 was approved for 7 Cooperatives.

Table 3: Loan disbursement per Sub County

Sub County	Group Beneficiaries	No. of Group	Loans Disbursed	No. of Cooperatives
Rabai	3,695,000	28	500,000	1
Kaloleni	7,330,000	55	1,000,000	1
Kilifi South	9,770,000	63	1,000,000	1
Kilifi North	13,796,200	72	2,400,000	1
Ganze	6,480,000	53	500,000	1
Malindi	7,970,000	61	1,500,000	1
Magarini	9,520,000	74	200,000	1
Total	58,561,200	406	7,100,000	7

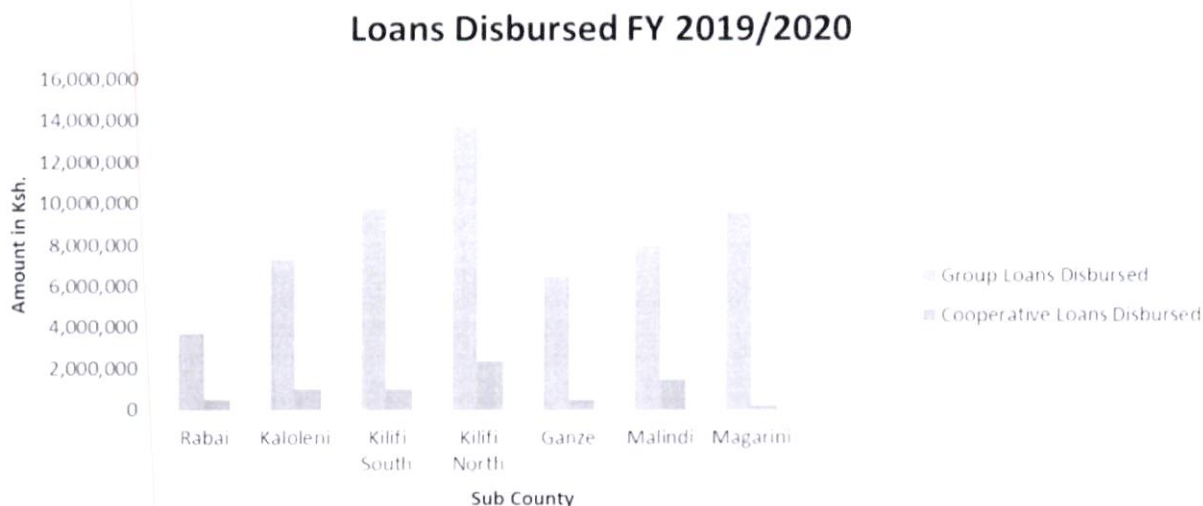


Fig. 2: Group and Cooperative loan amounts disbursed per Sub county

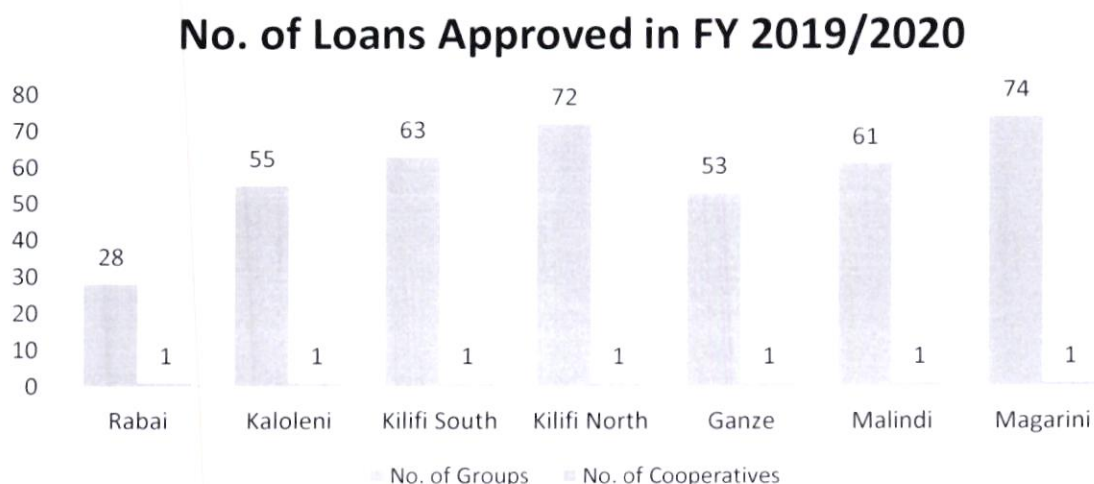


Fig. 3: No. of loans disbursed to per Sub County

8.2 Loan Repayments

Most of the loans issued to beneficiaries will be repaid in 24 months equal instalments. The beneficiaries were given one to three months grace period before starting repaying. As of end of June 2020, the Fund recorded a repayment rate of 95% for the year 2019/2020. A total of Ksh. 21,300,898 was received as loan repayments. The outstanding loan balance stood at Ksh. 71,311,463. The loan repayments were greatly affected by Covid 19 protocols. This led to the board giving a four months repayment holiday for all loans which had their repayments falling due between March to June 2020.



Table 4: Loan repayment performance

Parameter	2018/2019	2019/2020	Difference
Outstanding Loan Balance (OLB)	27,211,161	71,311,463	44,100,302
Loan Repayments Received	1,625,839	21,300,898	19,675,059
Loan Repayment Rate	98%	95%	-3%

8.3 Major Risks Associated with the Fund

The entity's activities expose it to a variety of financial risks including credit risk. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Fund does not hedge any risks and is working on policies to ensure that credit is extended to customers who conform to Fund laid down procedures.

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

i) Credit risk

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

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

8.4 The Future outlook of the Fund

The Fund has developed a three years strategic plan which is guiding the operations of the Fund upto the year 2023.

The Fund targets to increase its outreach by coming up with new loan products, reducing the average loan turnaround time among other strategies. The Fund will be introducing Individual loan product in the FY 2020/21.

The Fund will be seeking to enter into strategic partnerships which will contribute to the attaining of the Fund's objectives. The Fund will equally be seeking to source for other sources of income streams to supplement the allocation from the county government.

9. REPORT OF THE TRUSTEES

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

Principal activities

The principal activities of the Fund are

(i) To provide access to capital and financial facilities to micro and small enterprises owned by the residents in the County.

(ii) To support micro and small enterprises to develop linkages with large enterprises.

(iii) To facilitate marketing of products and services of micro and small enterprises owned by residents in the county in both domestic and international markets.

(iv) To facilitating investment in small and micro enterprises oriented commercial infrastructure such as business or industrial parks, stalls, markets or business incubators that will be beneficial to the enterprises.

(v) To provide business development services to micro and small enterprises, and generating gainful self-employment for the residents of Kilifi.

Results

The results of the Fund for the year ended June 30, 2020 are set out on page 20

Trustees

The members of the Board of Trustees who served during the year are shown on page 4 and 5. There were no changes in the board during the year.

Auditors

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

By Order of the Board

Mercy Ngombo

Member of the Board/Secretary of the Board

Date: 14.08.2020

10. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

The Administrator of the County Public Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Administrator of the County Public Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 the Kilifi County Microfinance (Mbegu) Fund Act, 2016 amended 2018. The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2020, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

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

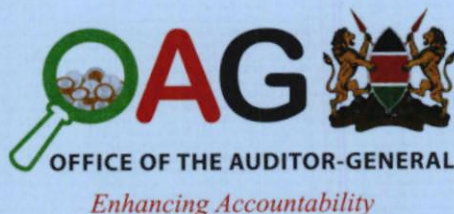
Approval of the financial statements

The Fund's financial statements were approved by the Board on 14th August, 2020 and signed on its behalf by:



Administrator of the County Public Fund

REPUBLIC OF KENYA



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E-mail: info@oagkenya.go.ke
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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KILIFI COUNTY MICRO-FINANCE (MBEGU) FUND FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kilifi County Microfinance (Mbegu) Fund set out on pages 20 to 41, which comprise of the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Kilifi County Microfinance (Mbegu) Fund as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kilifi County Microfinance (Mbegu) Fund Act, 2016 as amended by the Kilifi County Microfinance (Mbegu) Fund (Amendment) Act, 2018 and the Public Finance Management Act, 2012.

Basis for Opinion

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

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.119,016,250 and Kshs.108,523,672 respectively resulting to an under-funding of Kshs.10,492,578 or 9% of the budget. Similarly, the Fund expended Kshs.64,654,807 against an approved budget of Kshs.113,282,060 resulting to an under-expenditure of Kshs.48,627,253 or 43% of the budget. The underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Kilifi County.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis of Conclusion

1.0 Failure to Establish Procedures and Guidelines of the Fund

As previously reported, during the year under review, Kilifi Microfinance (Mbegu) Board had not established procedures and guidelines for matters relating to registration of enterprises, loan applications, loan approval and loan recovery. This is contrary to Section 8(c) of the Kilifi County Microfinance (Mbegu) Fund Act, 2016 which states that 'the Board of Kilifi County Microfinance (Mbegu) Fund shall establish procedures and guidelines for matters relating to registration of enterprises, loan applications, loan approval and loan recovery'. In the absence of documented procedures and guidelines, unapproved loans may be advanced or loans may be advanced to ineligible or unregistered applicants without commensurate collateral/security. Further, tracing loan defaulters for possible recovery of loans advanced may prove difficult and expensive to the Fund, thereby threatening its long-term sustainability.

The Management therefore, is in breach of the Law.

2.0 Fund Operating without Enabling Legislation

According to the Management Discussion and Analysis on page 14 of the financial statements, the Fund started its operations after gazettelement of the Kilifi County Microfinance Fund (Mbegu Fund) Amendment Act, 2018. However, the Management did not provide the Amendment Act for audit review. The Management indicated that the Act was taken to the Government Printer in August, 2018 for printing but as at the time of audit in the month of November 2020, the same had not been printed.

The Management was therefore in breach of the law.

3.0 Failure to Develop Regulations to Govern Operations of the Fund

During the year under review, Kilifi Microfinance (Mbegu) Board gave out loans totalling to Kshs.62,138,987 to various groups. However, these loans were not insured against possible default by borrowers. Further, penalties on loan arrears totaling Kshs.623,383 as at 30 June, 2020 were not charged due to lack of regulations governing the Fund's operations. The management indicated that the regulations are being developed, without specifying when this will be completed.

In the circumstances, the Management is 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.

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Funds' ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish the Fund or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 February, 2022

Report of the Auditor-General on Kilifi County Microfinance (Mbegu) Fund for the year ended 30 June, 2020

12. FINANCIAL STATEMENTS

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

	Note	2019/2020	2018/2019
		KShs	KShs
Revenue from non-exchange transactions			
Public contributions and donations	1	0	40
Transfers from the County Government	2	3,558,000	900,000
Fines, penalties and other levies		0	0
		3,558,000	900,040
Revenue from exchange transactions			
Interest income		0	0
Other income	3	3,523,672	1,544,620
		3,523,672	1,544,620
Total revenue		7,081,672	2,444,660
Expenses			
Fund administration expenses	4	11,900	11,900
General expenses	5	2,503,920	826,340
Finance costs		0	0
Total expenses		2,515,820	838,240
Other gains/losses			
Gain/loss on disposal of assets			
Surplus/(deficit) for the period		4,565,852	1,606,420

The notes set out on pages 38 to 42 form an integral part of these Financial Statements

**Kilifi County Microfinance Fund
Reports and Financial Statements
For the year ended June 30, 2020**

12. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	2019/2020	2018/2019
	KShs	KShs

Assets			
Current assets			
Cash and cash equivalents	65,033,489	3,756,218	
Current portion of long-term receivables from exchange transactions	24,277,963	14,933,531	
Prepayments	0	0	
Inventories	0	0	
Non-current assets			
Property, plant and equipment	368,800	0	8
Intangible assets	0	0	
Long term receivables from exchange transactions	47,034,020	12,017,630	7
Total assets	136,714,272	30,707,379	
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	0	959	
Provisions	0	0	
Current portion of borrowings	0	0	
Employee benefit obligations	0	0	
Non-current liabilities			
Non-current employee benefit obligation	0	0	
Long term portion of borrowings	0	0	
Total liabilities	0	959	
Net assets	136,714,272	30,706,420	
Revolving Fund	130,542,000	29,100,000	
Reserves	0	0	
Accumulated surplus	6,172,272	1,606,420	
Total net assets and liabilities	136,714,272	30,706,420	

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 14.08.2020 and signed by:

Administrator of the Fund
Name: Mercy Ngombo

Fund Accountant

Name: Doroita Wandoe

ICPAK Member Number: 13175

**Kilifi County Microfinance Fund
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12.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2020

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2018	-	-	-	-
Surplus/(deficit) for the period	-	-	1,606,420	1,606,420
Funds received during the year	29,100,000	-	-	29,100,000
Revaluation gain	-	-	-	0
Balance as at 30 June 2019	29,100,000	-	1,606,420	30,706,420
Balance as at 1 July 2019	29,100,000	-	1,606,420	30,706,420
Surplus/(deficit) for the period	-	-	4,565,852	4,565,852
Funds received during the year	101,442,000	-	-	101,442,000
Revaluation gain	-	-	-	-
Balance as at 30 June 2020	130,542,000	-	6,172,272	136,714,272

(Provide details on the nature and purpose of reserves)

**Kilifi County Microfinance Fund
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12.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019/2020	2018/2019
		KShs	KShs
Cash flows from operating activities			
Receipts			
Public contributions and donations		0	40
Transfers from the County Government	2	3,558,000	900,000
Receipts from other operating activities (management Fees)	3	3,523,672	1,544,620
Total Receipts		7,081,672	2,444,660
Payments			
Fund administration expenses	4	11,900	11,900
General expenses	5	2,503,920	826,340
Finance cost		0	0
		2,515,820	838,240
Net cash flows from operating activities		4,565,852	1,606,420
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		(368,800)	0
Proceeds from loan principal repayments		17,777,206	1,625,839
Loan disbursements paid out		(62,138,987)	(28,576,041)
Net cash flows used in investing activities		(44,730,581)	(26,950,202)
Cash flows from financing activities			
Proceeds from revolving fund receipts		101,442,000	29,100,000
Net cash flows used in financing activities		101,442,000	29,100,000
Net increase/(decrease) in cash and cash equivalents		61,277,271	3,756,218
Cash and cash equivalents at 1 July 2019	6	3,756,218	0
Cash and cash equivalents at 30 JUNE		65,033,489	3,756,218



12.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30th JUNE 2020

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilization
	2020	2020	2020	2020	2020	2020
	KShs	KShs	KShs	KShs	KShs	
Revenue						
Public contributions and donations	-	-	-	-	-	
Transfers from County Govt.	105,000,000	-	105,000,000	105,000,000	-	100%
Interest income	-	-	-	-	-	
Other income	14,016,250	-	14,016,250	3,523,672	10,492,578	25%
Total income	119,016,250	-	119,016,250	108,523,672	10,492,578	91%
Expenses						
Fund administration expenses	11,900	-	11,900	11,900	0	100%
General expenses	3,295,752	(84,190)	3,211,562	2,503,920	707,642	78%
Loans advanced	115,708,598	(5,650,000)	110,058,598	62,138,987	47,919,611	56%
Total expenditure	119,016,250	-	113,282,060	64,654,807	48,627,253	57%
Surplus for the period	-	-	5,734,190	43,868,865	38,134,675	

12.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

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

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

2. Adoption of new and revised standards

a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

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

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	Applicable: 1st January 2022: The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss

**Kilifi County Microfinance Fund
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Standard	Effective date and impact:
	<p>model that is applicable to all financial instruments subject to impairment testing; and</p> <ul style="list-style-type: none"> • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2022</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2022:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>
<p>Other Improvements to IPSAS</p>	<p>Applicable: 1st January 2021:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. <p>Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector</p>

**Kilifi County Microfinance Fund
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Standard	Effective date and impact:
	<p>Accounting Standards (IPSASs) was approved</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</p> <p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard</p>
	<p>IPSAS 40, Public Sector Combinations. Amendments to include the effective date paragraph which were inadvertently omitted when IPSAS 40 was issued</p>

c) Early adoption of standards

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

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

4. Budget information

The original budget for FY 2019/2020 was approved by the County Assembly on June 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded additional appropriations of Ksh. 105,000,000 on the FY 2019/2020 budget following the governing body's approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 12.5 of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. 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.

6. 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)

7. Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. The Fund has not maintain a reserve account in the financial year 2019/20.

8. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Cash and cash equivalents

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

10. Comparative figures

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

11. Events after the reporting period

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

12. Ultimate and Holding Entity

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

13. Currency

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Significant judgments and sources of estimation uncertainty

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the financial year 2019/20, there were no judgements, estimates and assumptions made.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15. Financial risk management

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

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

a) Credit risk

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

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. 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 2019				
Receivables from exchange transactions	26,951,161	26,951,161	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	3,756,218	-	-	-
Total	30,707,379	26,951,161	-	-
At 30 June 2018				
Receivables from exchange transactions	71,311,983	71,311,983	-	-
Receivables from non exchange transactions	-	-	-	-
Bank balances	65,033,489	-	-	-
Total	136,345,472	71,311,983	-	-

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Capital risk management

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

	2019/2020	2018/2019
	KShs	KShs
Revaluation reserve	xxx	Xxx
Revolving fund	101,442,000	29,100,000
Accumulated surplus	6,172,272	1,606,420
Total funds	107,614,272	30,706,420
Total borrowings	-	-
Less: cash and bank balances	(65,033,489)	(3,756,218)
Net debt/(excess cash and cash equivalents)	42,580,783	26,950,202
Gearing	40%	88%

12.7. NOTES TO THE FINANCIAL STATEMENTS

1. Public contributions and donations

Description	2019/2020	2018/2019
	KShs	KShs
Donation from development partners	-	40
Contributions from the public	-	-
Total	-	40

2. Transfers from County Government

Description	2019/2020	2018/2019
	KShs	KShs
Transfers from County Govt. – operations	3,558,000	900,000
Payments by County on behalf of the entity	-	-
Total	3,558,000	900,000

3. Other income

Description	2019/2020	2018/2019
	KShs	KShs
Insurance recoveries	-	-
Income from sale of tender documents	-	-
Miscellaneous income(Management fee)	3,523,672	1,544,620
Total other income	3,523,672	1,544,620

4. Fund administration expenses

Description	2019/2020	2018/2019
	KShs	KShs
Staff costs (Note 7)	-	-
Loan processing costs	11,900	11,900
Professional services costs	-	-
Administration fees	-	-
Total	11,900	11,900

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. General expenses

Description	2019/2020	2018/2019
	KShs	KShs
Utilities, supplies and services	-	-
Communication, supplies and services	44,610	25,750
Domestic travel and subsistence	1,046,430	160,240
Foreign travel and subsistence	-	-
Printing, advertising and information supplies and services	85,100	62,000
Rentals of produced assets	-	-
Training expenses	204,800	-
Hospitality, supplies and services	137,100	548,100
Insurance costs	-	-
Office and general supplies and services	265,980	25,000
Other operating expenses	719,900	5,250
Depreciation and amortization costs	-	-
Other expenses	-	-
Total	2,503,920	826,340

**Kilifi County Microfinance Fund
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Cash and cash equivalents

Description	2019/2020	2018/2019
	KShs	KShs
Car loan account	-	-
County mortgage account	-	-
Fixed deposits account	-	-
On – call deposits	-	-
Current account	65,017,939	3,731,684
Others	15,550	24,534
Total cash and cash equivalents	65,033,489	3,756,218

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

		2019/2020	2018/2019
Financial institution	Account number	KShs	KShs
a) Fixed deposits account			
b) On - call deposits			
c) Current account			
Cooperative Bank of Kenya	0114169194200	41,364,882	2,055,389
Cooperative Bank of Kenya	01141691949201	792,170	77,470
Cooperative Bank of Kenya	01141691949202	22,860,887	1,598,825
Sub- total		65,017,939	3,731,684
Others(specify)			
b) Cash in transit		-	-
Cash in hand		-	-
M Pesa		15,550	24,534
Sub- total		15,550	24,534
Grand total		65,033,489	3,756,218

7. Receivables from exchange transactions

Description	2019/2020	2018/2019
	KShs	KShs
Current Receivables		
Interest receivable	-	-
Current loan repayments due	24,277,963	14,933,531
Other exchange debtors	-	-
Less: impairment allowance	-	-
Total Current receivables	24,277,963	14,933,531
Non-Current receivables		
Long term loan repayments due	47,034,020	12,017,630
Total Non- current receivables	47,034,020	12,017,630
Total receivables from exchange transactions	71,311,983	26,951,161

**Kilifi County Microfinance Fund
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. 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 2018					
Additions					
Disposals					
Transfers/adjustments					
At 30th June 2019	-	-	-	-	-
At 1st July 2019					
Additions				368,800	368,800
Disposals					-
Transfer/adjustments					-
At 30th June 2020	-	-	-	368,800	368,800
Depreciation and impairment					
At 1 st July 2018					-
Depreciation					-
Impairment					-
At 30th June 2019	-	-	-	-	-
At 1st July 2019					
Depreciation					-
Disposals					-
Impairment					-
Transfer/adjustment					-
At 30th June 2020	-	-	-	-	-
Net book values				368,800	368,800
At 30th June 2019	-	-	-	-	-
At 30th June 2020	-	-	-	368,800	368,800

