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## REPORT

OF

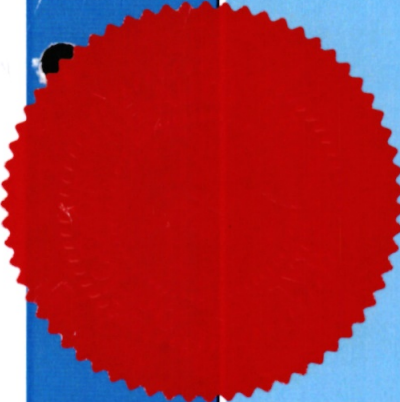
### THE AUDITOR-GENERAL

ON

### MAKUENI COUNTY STATE AND PUBLIC OFFICERS CAR LOAN AND MORTGAGE FUND

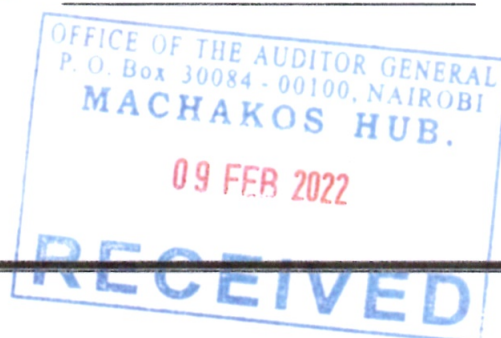
### FOR THE YEAR ENDED 30 JUNE, 2021

PAPERS LAID	
DATE	13/10/22
TABLED BY	Senate Majority Leader
COMMITTEE	—
CLERK AT THE TABLE	Abdirahman.M.



REPUBLIC OF KENYA

GOVERNMENT OF MAKUENI COUNTY



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**MAKUENI COUNTY STATE AND PUBLIC OFFICERS CAR LOAN AND  
MORTGAGE FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2021**

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

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**Makueni County State and Public Officers Car Loan and Mortgage Fund  
 Reports and Financial Statements  
 For the year ended June 30, 2021**

TABLE OF CONTENTS

TABLE OF CONTENTS	1
1. KEY ENTITY INFORMATION AND MANAGEMENT	2
2. FUND ADMINISTRATION COMMITTEE	6
3. STATEMENT OF PERFORMANCE AGAINST COUNTY ENTITY'S PREDETERMINED OBJECTIVES	8
4. MANAGEMENT TEAM	9
5. FUND CHAIRPERSON'S REPORT	11
6. REPORT OF THE FUND ADMINISTRATOR	12
7. CORPORATE GOVERNANCE STATEMENT	13
8. MANAGEMENT DISCUSSION AND ANALYSIS	15
9. REPORT OF THE FUND ADMINISTRATION COMMITTEE	17
10. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES	18
11. REPORT OF THE INDEPENDENT AUDITOR	19
12. FINANCIAL STATEMENTS	20
12.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 <sup>th</sup> JUNE 2021 .....	20
12.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021 .....	21
12.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2021 .....	22
12.4. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 <sup>th</sup> JUNE 2021 .....	24
12.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	25
12.6. NOTES TO THE FINANCIAL STATEMENTS .....	40
14. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	46

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

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**1. KEY ENTITY INFORMATION AND MANAGEMENT**

**a) Background information**

Makueni County State and Public Officers Car Loan and Mortgage Fund is established by and derives its authority and accountability from Makueni County State and Public Officers Car Loan and Mortgage Fund Regulations, 2017 Act on 30<sup>th</sup> January, 2018. The Fund is wholly owned by the County Government of Makueni and is domiciled in Kenya.

The fund's objective is to provide a loan scheme for the purpose of advancement to state officers and public officers.

**b) Principal Activities**




The principal mandate of the Fund is to finance Makueni County officers to purchase car, residential house or plot, renovate or develop residential property.

**c) Fund Administration Committee**

<b>Ref</b>	<b>Name</b>	<b>Position</b>
1	Justus Suka	Chairman
2	Diana Muli	Secretary
3	Daniel Musau	Fund Administrator
4	Patrick Kyenza	Member
5	Josphat Musyoki	Member
6	Shadrack Mulanga	Member

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

**d) Key Management**

Ref	Name	Position
1	CPA. Mary Kimanzi 	<b><u>CEC. Finance and Socio-economic Planning</u></b> She is a Certified Public Accountant and a Member of the Institute of Certified Public Accountants of Kenya. She holds a Master of Business Administration in Finance from the University of Nairobi and currently pursuing a Master of Public Policy and Management at Strathmore Business School. She is also currently serving as a member of the Public Sector Accounting Standards Board. She was born on 10 <sup>th</sup> June ,1971.
2	CPA. Justus Suka 	<b>Chairman- Car loan and Mortgage Fund</b> MBA Finance, BCOM,CPA K. Vast experience in Public Sector Year of Birth : 01.01.1982
3	CPA.Daniel Musau 	<b>Fund Administrator</b> BCOM,CPA K . 8 Years experience in both private and public sector. Year of Birth :10 <sup>th</sup> August,1987.

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

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**e) Fiduciary Oversight Arrangements**

Ref	Position	Name
1	County Audit Committee	FCPA. Martin Musyimi
2	Fund administration committee	CPA. Justus Suka
3	Loan Management Committee	CPA. Justus Suka

**f) Registered Offices**

County Headquarters  
Treasury Building  
P.O. Box 78 -90300  
Makueni, Kenya

**g) Fund Contacts**

County Headquarters  
Treasury Building  
P.O. Box 78 -90300  
Makueni, Kenya  
Tel No. 020-2034944  
Email: [finance@makueni.go.ke](mailto:finance@makueni.go.ke)

**h) Fund Bankers**

1. Central Bank of Kenya  
Haile Selassie Avenue  
P.O. Box 60000  
City Square 00200  
Nairobi, Kenya
2. Family Bank Ltd  
Muindi Mbingu Street,  
P.O Box 74145-00200,  
Nairobi, Kenya

**i) Independent Auditors**

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

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

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**j) Principal Legal Adviser**

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

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

**2. FUND ADMINISTRATION COMMITTEE**

Name	Details of qualifications and experience
<p><b>Justus Suka - Chairman</b></p> 	<p>MBA Finance, BCOM, CPA K. Vast experience in Public Sector Year of Birth : 01.01.1982.</p>
<p><b>Diana Muli - Secretary</b></p> 	<p>BSc -Tourism Management-First Class Honors Advanced Diploma (Travel Operations) Iata/Uftaa Diploma Certified Computer Technician Kcse -B Minus More than 20 years experience in both private and public sector Date of Birth: 30<sup>th</sup> June, 1975</p>
<p><b>Daniel Musau – Fund Administrator</b></p> 	<p>BCOM, CPA K . 9 Years experience in both private and public sector Date of Birth: 10<sup>th</sup> August, 1987.</p>

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

**Patrick Kyenza - Member**



**Masters in HR, B.A Higher Diploma in HR  
Over 24 years of experience in both private and  
public sector.  
Date of Birth: 6<sup>th</sup> July, 1965.**

**Josphat Musyoki - Member**



**Bsc. Electrical and Electronic engineering,  
Vast experience in private and public sector.  
Date of Birth: 13<sup>th</sup> January, 1982**

**Shadrack Mulanga - Member**



**Masters In Law, Bachelor in Law,  
Professional qualification: Diploma in Law-KSL  
Advocate . Over 30 years experience.  
Date of Birth: 15<sup>th</sup> September, 1963**

**3. STATEMENT OF PERFORMANCE AGAINST COUNTY ENTITY'S  
PREDETERMINED OBJECTIVES**

**Guidance**

**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 Makueni County State and Public Officers Car Loan and Mortgage Fund are to financing Makueni County officers :

- to purchase car,
- to purchase residential house or plot,
- renovate or develop a residential property.

The progress on attaining the stated objectives is indicated below

<b>Program</b>	<b>Objective</b>	<b>Outcome</b>	<b>Indicator</b>	<b>Performance</b>
Car Loans	To support staff to own personal cars for convenience	Punctually in attending office	% of staff who were advanced car loans	In FY 2020/2021 car loans increased by 11%
Mortgage	Ensure staff have residential homes	Motivated staff due to rental cost being avoided	% of staff who have residential homes	In FY 2020/2021 mortgage loans increased by 23%

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

**4. MANAGEMENT TEAM**

Name	Details of qualifications and experience
<p><b>Justus Suka</b></p> 	<p>MBA Finance, BCOM, CPA K. Vast experience in Public Sector Year of Birth : 01.01.1982.</p>
<p><b>Diana Muli</b></p> 	<p>BSc -Tourism Management-First Class Honors Advanced Diploma (Travel Operations) Iata/Uftaa Diploma Certified Computer Technician Kcse –B Minus More than 20 years experience in both private and public sector Date of Birth: 30<sup>th</sup> June, 1975</p>
<p><b>Daniel Musau</b></p> 	<p>BCOM, CPA K . 9 Years experience in both private and public sector Date of Birth: 10<sup>th</sup> August, 1987.</p>

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
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**Josphat Musyoki**



**Bsc. Electrical and Electronic engineering,  
Vast experience in private and public sector.  
Date of Birth: 13<sup>th</sup> January, 1982**

**Shadrack Mulanga**



**Masters In Law, Bachelor in Law,  
Professional qualification: Diploma in Law-KSL  
Advocate . Over 30 years experience.  
Date of Birth: 15<sup>th</sup> September, 1963**

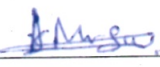


## **6. REPORT OF THE FUND ADMINISTRATOR**

The Makueni County Mortgage and Car Loan Regulations 2017 provides the legal framework necessary for the state and public officers of the Makueni County Government to access cheaper and affordable loans for housing and cars. The regulations set out the forms and structures of the types of schemes that the county can institute to ensure County Staff access these facilities as enshrined in the SRC circular Ref SRC/ADM/CIR/1/3 Vol. III (128) dated 17th December 2014 on access to affordable housing and Car Loan and Mortgage Schemes for State Officers and other Public Officers of Government of Kenya.

The loan portfolio has grown tremendously over the years since commencement of the fund. Currently it stands at Kshs. 297,226,530.00. During the financial year 2020/2021, the fund received Kshs. 20,000,000.00 and advanced Kshs. 65,830,500.00 to members of the scheme during the same period

The total amount so far received by the fund since its commencement in financial year 2017/2018 up to financial year 2020/2021 is Kshs. 290,250,000

Signed:  04/01/2022

CPA. Daniel Musau

## **7. CORPORATE GOVERNANCE STATEMENT**

The Makueni County State and Public Officers Car Loan and Mortgage Fund Regulations 2017, has established scheme management structures. The scheme management structures are the Officer Administering the fund and who has the overall supervision and control responsibilities, the Loans Management Committees which consider and approve all applications and the appointed financial institution which disburses monies from the fund for all successful and approved applications.

Makueni County Mortgage and Car Loan Committee is duly constituted as per Makueni County Mortgage and Car Loan Regulations 2017. Section 7 of Makueni County Mortgage and Car Loan Regulations 2017 stipulates the succession of the members of the committee. The loans management committee shall consist the chief officer in charge of finance and planning who shall be the chairperson, the chairperson of the County Welfare Committee, the chief officer in charge of transport and infrastructure, the chief officer in charge of social services who shall be the secretary then legal officer. All are appointed by Ecm - Finance and Socio-Economic Planning & Head of County Treasury. In case a member leaves office due to any reason, the next person who holds that office automatically becomes a member. The members of the committee have sufficiently diverse expertise, skills and experience.

The committee has responsibility for day to day management and administration of the fund and monitoring performance and maintaining an effective framework of controls to mitigate risks that might face the fund.

The committee members are rewarded in form of sitting allowances.

During the financial year 2020/2021 the committee had no any changes of the committee members. The remuneration of the committee members is earned inform of sitting allowances.

The Directorate of Internal Audit is tasked to ensure compliance with set internal controls and assessing risk of the fund.

The committee members are the fiduciaries who steer the fund towards a sustainable future by adopting sound, ethical, and legal governance and financial management policies, as well as by making sure the Fund has adequate resources to advance its mission.

The committee's meeting quorum is at least three members. The meetings are convened by the chairperson or in the absence of the chairperson, by a member designated by the committee members. The meetings are convened at such times as may be necessary for the discharge of the committee's functions. During the year the committee had only three meetings to appraise car loan and mortgage applications.

Makueni County State and Public Officers Car Loan and Mortgage Fund applies the County Service Charter for its service delivery. This enhances productivity and fast track service delivery consistent with service standards that respond to the needs and aspirations of customers. The charter sets out the commitments, roles and responsibilities of the Board on one hand and obligations of customers on the other hand. The Charter recognizes that customers are at the center of service delivery while the Board renders services commensurate with commitments and undertakings as outlined by the law.

Induction was conducted when the committee members were appointed. The same induction is also done to newly appointed members. The members have also undergone relevant training to enhance seamless delivery of services.

The Memorandum of Understanding between Government of Makueni County and the Family Bank Limited defines the procedures to be followed in case of conflict of interest.

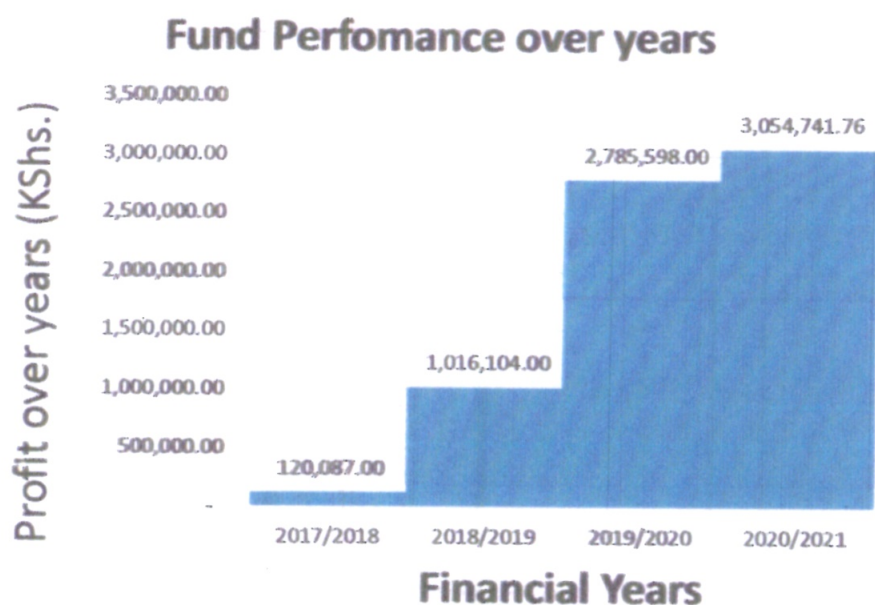
The Government of Makueni County developed Public and State Officers Code of Conduct for Makueni County Public Service, October, 2018 which outlines the standard of behaviour expected of Government of Makueni County employees. It is designed to assist employees in understanding their responsibilities and obligations, and provides guidance whenever they are faced with an ethical dilemma or conflict of interest. By virtue of their employment, employees are in a unique position of trust. They are therefore required to uphold standards of ethical behaviour that reflect stakeholders' expectations.

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

**8. MANAGEMENT DISCUSSION AND ANALYSIS**

Makueni County Executive and Public Officers Car Loan and Mortgage Fund has performed well by achieving 57% growth in net profit during the financial year 2020/2021. The graph below indicates the profitability performance over the years.

**Fund Performance Chart**



The book value of the fund as at 30<sup>th</sup> June, 2021 stands at Kshs 297,226,530.00.

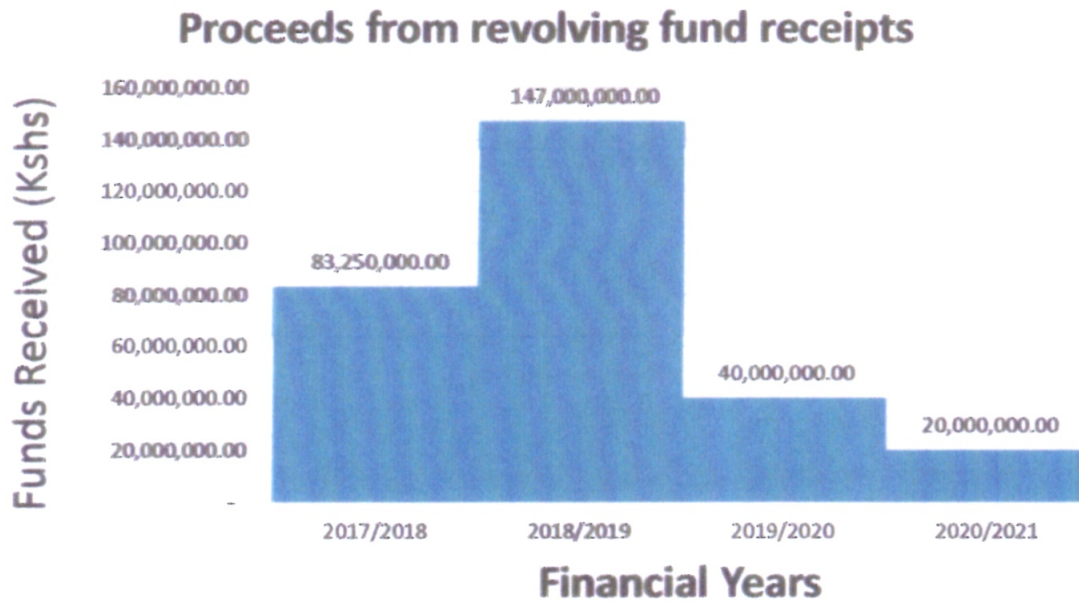
The loan portfolio has grown tremendously over the years since commencement of the fund. Currently it stands at Kshs. 297,226,530.00. During the financial year 2020/2021, the fund received Kshs. 20,000,000.00 and advanced Kshs. 65,830,500.00 to members of the scheme

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

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during the same period. The total amount so far received by the fund since its commencement in financial year 2017/2018 up to financial year 2020/2021 is Kshs. 290,250,000. The chart below indicates proceeds from revolving fund receipts.

**Revolving fund**



**9. REPORT OF THE FUND ADMINISTRATION COMMITTEE**

The Trustees submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of the Fund affairs.

**Principal activities**

The principal activities of the Fund are to advance Car Loan and Mortgage to the members of the fund.

**Performance**

The results of the Fund for the year ended June 30, 2021 are set out on page 20 to 24.

**Trustees**

The members of the administration committee who served during the year are shown on page 6 to 9.

**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 Committee

CPA. Justus Suka

Justus Suka

Chairman of the Committee

Date: 04/01/2022

**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 Makueni County State and Public Officers Car Loan and Mortgage Fund Regulations, 2017 Act 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, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the Financial Position of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the Financial Statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Administrator of the County Public Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Makueni County State and Public Officers Car Loan and Mortgage Fund Regulations, 2017. The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2021, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Administrator of the 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**

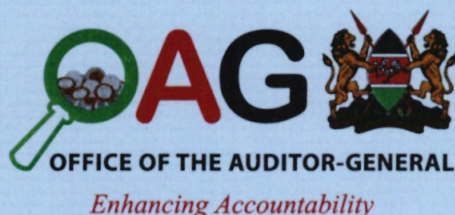
The Fund's Financial Statements were approved by the Committee on 29/09/ 2021 and signed on its behalf by:



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

# REPUBLIC OF KENYA

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

## REPORT OF THE AUDITOR-GENERAL ON MAKUENI COUNTY STATE AND PUBLIC OFFICERS CAR LOAN AND MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2021

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### 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

#### Opinion

I have audited the accompanying financial statements of Makueni County State and Public Officers Car Loan and Mortgage Fund set out on pages 20 to 46, which comprise the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement

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*Report of the Auditor-General on Makueni County State and Public Officers Car Loan and Mortgage Fund for the year ended 30 June, 2021*

of comparison of the 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 Makueni County State and Public Officers Car Loan and Mortgage Fund as at 30 June, 2021, 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 Public Finance Management Act, 2012 and Makueni County State and Public Officers Car Loan and Mortgage Fund Act, 2018.

### **Basis for Opinion**

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

### **Key Audit Matters**

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

### **Other Information**

The Management is responsible for the other information, which comprises Statement of Performance Against County Entity's Predetermined Objectives, Fund Chairperson's Report, Report of the Fund Administrator, Corporate Governance Statement, Management Discussion and Analysis, Report of Fund Administration Committee and Statement of Management Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

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

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

### **Conclusion**

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

## **Basis for Conclusion**

### **1. Unsecured Car Loans**

Review of documents supporting car loans advanced to Members revealed that three loans totalling Kshs.4,955,000 were given during the year to Members who purchased motor vehicles. However, Log books were not registered and deposited with the financial institutions or County Government as security for the loans. This is contrary to the provisions of Section 9 (2) of the Public Finance Management (Makueni County State and Public Officers Car Loan and Mortgage Fund) Regulations, 2017 which requires logbook to be delivered by the applicant to the financial institutions or County Government as security until the loan is fully repaid.

In the absence of security for the loans advanced, money may be lost in an event of default.

### **2. Late Disbursement of Funds**

The statement of changes in net assets reflects fund balance of Kshs.297,226,530 as at 30 June, 2021. The balance includes transfers from the County Government of Kshs.20,000,000 which was received in June, 2021 which was towards the end of financial year. The Management did not therefore have effective means of achieving desired program outcomes as prescribed by Section 22 (1) (a) of the Public Finance Management (County Governments) Regulations, 2015.

In the circumstances, the late release of the funds has negative impact on the Fund's objective of disbursement of loans.

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 governance were not effective.

### **Basis for Conclusion**

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

## **Responsibilities of Management and those Charged with Governance**

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the County Government is aware of the intention to terminate 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 entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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

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

In addition to the audit of the 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 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

15 July, 2022

**Makueni County State and Public Officers Car Loan and Mortgage Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2021**

**12. FINANCIAL STATEMENTS**

**12.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2021**

	Note	2020/2021	2019/2020
		KShs	KShs
<b>Revenue from exchange transactions</b>			
Interest income	1	7,788,340	6,917,611
Other income	2		
<b>Total revenue</b>		<b>7,788,340</b>	<b>6,917,611</b>
<b>Expenses</b>			
Fund administration expenses	3	4,543,198	4,035,273
Staff costs	4	190,400	95,000
Finance costs	5	-	1,740
<b>Total expenses</b>		<b>4,733,598</b>	<b>4,132,013</b>
<b>Other gains/losses</b>			
Gain/loss on disposal of assets			
<b>Surplus/( deficit) for the period</b>		<b>3,054,742</b>	<b>2,785,598</b>


The notes set out on pages 40 to 45 form an integral part of these Financial Statements


**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

**12.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021**

	Note	FY2020/2021 KShs	FY2019/2020 KShs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	25,881,508	41,586,993
Current portion of long term receivables from exchange transactions	7	3,384,386	29,747,310
Prepayments			
Inventories			
<b>Non-current assets</b>			
Property, plant and equipment			
Intangible assets			
Long term receivables from exchange transactions	7	277,832,130	204,970,185
<b>Total assets</b>		<b>307,098,024</b>	<b>276,304,489</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	8	9,871,493	2,132,700
Provisions			
Current portion of borrowings			
<b>Non-current liabilities</b>			
Non-current employee benefit obligation			
Long term portion of borrowings			
<b>Total liabilities</b>		<b>9,871,493</b>	<b>2,132,700.00</b>
<b>Net assets</b>		<b>297,226,530</b>	<b>274,171,789</b>
Revolving Fund		290,250,000	270,250,000
Reserves		3,054,742	1,136,191
Accumulated surplus		3,921,789	2,785,598
<b>Total net assets and liabilities</b>		<b>297,226,530</b>	<b>274,171,789</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 29/09 2021 and signed by:

  
 Administrator of the Fund  
 Name: Daniel Musau  
 ICPAK Member No:11026

  
 Chairman  
 Name:Justus Suka  
 ICPAK Member No:16463

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

**12.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2021**

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
<b>Balance as at 1 July 2018</b>	<b>83,250,000</b>	-	<b>120,087</b>	<b>83,370,087</b>
Surplus/(deficit) for the period			1,016,104	1,016,104
Funds received during the year	147,000,000			147,000,000
<b>Revaluation gain</b>				-
<b>Balance as at 30th June 2019</b>	<b>230,250,000</b>	-	<b>1,136,191</b>	<b>231,386,191</b>
Balance as at 1 July 2019	230,250,000	-	1,136,191	231,386,191
Surplus/(deficit) for the period			2,785,598	2,785,598
Funds received during the year	40,000,000			40,000,000
<b>Revaluation gain</b>				-
<b>Balance as at 30 June 2020</b>	<b>270,250,000</b>	-	<b>3,921,789</b>	<b>274,171,789</b>
Balance as at 1 July 2020	270,250,000	-	3,921,789	274,171,789
Surplus/(deficit) for the period			3,054,742	3,054,742
Funds received during the year	20,000,000			20,000,000
<b>Revaluation gain</b>				-
<b>Balance as at 30 June 2021</b>	<b>290,250,000</b>		<b>6,976,530</b>	<b>297,226,530</b>

The reserves are due to retained profits ploughed back to the fund

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021**

	Note	FY2020/2021	FY2019/2020
		KShs	KShs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Interest received	1(b)	7,086,440	7,622,138
<b>Total Receipts</b>		<b>7,086,440</b>	<b>7,622,138</b>
<b>Payments</b>			
Fund administration expenses paid	3(b)	5,498,843	4,012,194
Staff costs	4	190,400	95,000
Finance cost	5		1,740
<b>Total Payments</b>		<b>5,689,243</b>	<b>4,108,934</b>
<b>Net cash flows from operating activities</b>		<b>1,397,197</b>	<b>3,513,204</b>
<b>Cash flows from investing activities</b>			
Proceeds from loan principal repayments	10	28,727,818	28,776,928
Loan disbursements paid out	10	(65,830,500)	(94,785,741)
<b>Net cash flows used in investing activities</b>		<b>(37,102,682)</b>	<b>(66,008,813)</b>
<b>Cash flows from financing activities</b>			
Proceeds from revolving fund receipts	11	20,000,000	40,000,000
<b>Net cash flows used in financing activities</b>		<b>20,000,000</b>	<b>40,000,000</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(15,705,485)</b>	<b>(22,495,609)</b>
<b>Cash and cash equivalents at 1st July 2020</b>	6	<b>41,586,993</b>	<b>64,082,602</b>
<b>Cash and cash equivalents at 30 June 2021</b>	6	<b>25,881,508</b>	<b>41,586,993</b>

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.

Note that the interest captured in the cashflow is the actual interest received during the financial year but not the interest earned over the period. Direct method presentation of cashflow requires declaring actual interest received in the cashflow. The fund administration expenses also reflect actual expense paid but not the incurred expense during the period.

**Makueni County State and Public Officers Car Loan and Mortgage Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2021**

**12.4. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30<sup>th</sup> JUNE 2021**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2020/2021	2020/2021	2020/2021	2020/2021	2020/2021	2020/2021
	KShs	KShs	KShs	KShs	KShs	
<b>Revenue</b>						
Public contributions and donations						
Transfers from County Govt.	20,000,000		20,000,000	20,000,000	-	100%
Interest income	7,847,704		7,847,704	7,788,340.21	59,364	99%
Other income			-		-	
<b>Total income</b>	<b>27,847,704</b>	<b>-</b>	<b>27,847,704</b>	<b>27,788,340</b>	<b>59,364</b>	<b>100%</b>
<b>Expenses</b>						
Fund administration expenses	4,577,827	-	4,577,827	4,543,198	34,629	99%
Transfer to revolving funds	20,000,000		20,000,000	20,000,000	-	100%
Staff costs	2,500,000		2,500,000	190,400	2,309,600	8%
General expenses	160,000		160,000		160,000	0%
Finance cost	2,000		2,000	-	2,000	0%
<b>Total expenditure</b>	<b>27,239,827</b>	<b>-</b>	<b>27,239,827</b>	<b>24,733,598</b>	<b>2,506,229</b>	<b>91%</b>
<b>Surplus for the period</b>	<b>607,877</b>	<b>-</b>	<b>607,877</b>	<b>3,054,742</b>	<b>(2,446,865)</b>	

**Budget notes**

- 1. The uptake of the loans was much hence leading to increase of interest earned during the period*
- 2. Staff and finance costs were not utilized fully hence a cost saving to the fund.*

**12.5. 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.

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

<p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard</p>	<p><i>Document the impact if the fund is reporting for the first time on accrual/ Otherwise indicate that there was no impact</i></p>
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**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021**

Standard	Effective date and impact:
<p><b>IPSAS 41: Financial Instruments</b></p>	<p><b>Applicable: 1<sup>st</sup> January 2022:</b></p> <p>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.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset’s cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity’s risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul> <p><i>(State the impact of the standard to the entity if relevant)</i></p>

**Makueni County State and Public Officers Car Loan and Mortgage Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2021**

Standard	Effective date and impact:
<p><b>IPSAS 42: Social Benefits</b></p>	<p><b>Applicable: 1<sup>st</sup> January 2022</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <ul style="list-style-type: none"> <li>(a) The nature of such social benefits provided by the entity;</li> <li>(b) The key features of the operation of those social benefit schemes; and</li> <li>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</li> </ul> <p><i>(State the impact of the standard to the entity if relevant)</i></p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p><b>Applicable: 1st January 2022:</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</li> <li>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</li> </ul> <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>

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

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**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**c) Early adoption of standards**

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2. 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.

**3. Budget information**

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 9.5 of these financial statements.

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4. 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.

**5. 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.

**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.

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**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.

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**7.° 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.

**8. 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.

**9. Nature and purpose of reserves**

The Entity creates and maintains reserves in terms of specific requirements. The reserves for the fund are the retained profits for the fund.

**10. 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.

**11. 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.

**12. 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.

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**13. 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.

**14. 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.

**15. 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 Family Bank 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.

**16. Comparative figures**

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

**17. Events after the reporting period**

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

**18. Ultimate and Holding Entity**

The entity is a County Public Fund established by Makueni County State and Public Officers Car Loan and Mortgage Fund Regulations, 2017 Act under the Department of Finance. Its ultimate parent is the County Government of Makueni.

**19. Currency**

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

**Makueni County State and Public Officers Car Loan and Mortgage Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2021**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**21. 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
<b>At 30 June 2021</b>				
Receivables from exchange transactions	281,216,516	281,216,516		
Receivables from non exchange transactions				
Bank balances	25,881,508	25,881,508		
<b>Total</b>	<b>307,098,024</b>	<b>307,098,024</b>		
<b>At 30 June 2020</b>				
Receivables from exchange transactions	234,820,556	234,820,556		
Receivables from non exchange transactions				
Bank balances	41,586,993	41,586,993		
<b>Total</b>	<b>276,407,549</b>	<b>276,407,549</b>		

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**20. 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.

**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.

**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

**Provisions**

Provisions were raised and management determined an estimate based on the information available. 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.

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

**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.

**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
<b>At 30 June 2021</b>				
Trade payables	9,871,493			9,871,493
Current portion of borrowings				
Provisions				
Employee benefit obligation				
<b>Total</b>	<b>9,871,493</b>			<b>9,871,493</b>
<b>At 30 June 2020</b>				
Trade payables	2,132,700			2,132,700
Current portion of borrowings				
Provisions				
Employee benefit obligation				
<b>Total</b>	<b>2,132,700</b>			<b>2,132,700</b>

**Makueni County State and Public Officers Car Loan and Mortgage Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2021**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 fund's exposure to market risks or the manner in which it manages and measures the risk.

**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:

	2020/2021	2019/2020
	KShs	KShs
Revolving fund	290,250,000	270,250,000.00
Reserve	3,054,742	1,136,191
Accumulated surplus	3,921,789	2,785,598
<b>Total funds</b>	<b>297,226,530</b>	<b>276,304,489</b>
Total borrowings		
Less: cash and bank balances	25,881,508	41,586,993
Net debt/(excess cash and cash equivalents)		
<b>Gearing</b>	<b>323,108,038</b>	<b>234,717,856</b>

**Makueni County State and Public Officers Car Loan and Mortgage Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2021**

**12.6. NOTES TO THE FINANCIAL STATEMENTS**

**1. (a) Interest income earned**

Description	2020/2021	2019/2020
	KShs	KShs
Interest income earned from Car Loan Mortgage loans	7,788,340	6,917,611
<b>Total interest income</b>	<b>7,788,340</b>	<b>6,917,611</b>

The interest is earned from loans disbursed to members over the period.

**1. (b) Interest income received**

Description	2020/2021	2019/2020
	KShs	KShs
Interest income received from Car Loan Mortgage loans	7,086,440	7,622,138
<b>Total interest income</b>	<b>7,086,440</b>	<b>7,622,138</b>

The above interest income received refers to the actual interest received during the financial year which is inclusive of the interest accrued as at 30<sup>th</sup> June, 2020.

**2. Other income**

Description	2020/2021	2019/2020
	KShs	KShs
Insurance recoveries		
<b>Total other income</b>		

**3. (a) Fund administration expenses earned**

Description	2020/2021	2019/2020
	KShs	KShs
Professional services costs	4,543,198	4,035,273
<b>Total</b>	<b>4,543,198</b>	<b>4,035,273</b>

**3.(b) Fund administration expenses paid**

Description	2020/2021	2019/2020
	KShs	KShs
Professional services costs	5,498,843	4,012,194
<b>Total</b>	<b>5,498,843</b>	<b>4,012,194</b>

Fund administration expenses earned refers to expenses charged during the financial year while fund administration expenses paid refers to actual expenses paid during the year inclusive of the expenses accrued as at 30<sup>th</sup> June, 2020.

**Makueni County State and Public Officers Car Loan and Mortgage Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2021**

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

**4. Staff costs**

Description	2020/2021	2019/2020
	KShs	KShs
Salaries and wages		
Staff gratuity		
Staff training expenses		
Social security contribution		
Other staff costs	190,400	95,000
<b>Total</b>	<b>190,400</b>	<b>95,000</b>

**5. Finance costs**

Description	2020/2021	2019/2020
	KShs	KShs
Interest on Bank overdrafts		
Interest on loans from banks		
Bank Charges		1,740
<b>Total</b>		<b>1,740</b>

**6. Cash and cash equivalents**

Description	2020/2021	2019/2020
	KShs	KShs
Fixed deposits account		
On – call deposits		
Current account	25,881,508	41,586,993
Others	-	-
<b>Total cash and cash equivalents</b>	<b>25,881,508</b>	<b>41,586,993</b>

Makueni County State and Public Officers Car Loan and Mortgage Fund  
 Reports and Financial Statements  
 For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Financial institution	Account number	2020/2021 KShs	2019/2020 KShs
<b>a) Fixed deposits account</b>			
Kenya Commercial bank			
<b>Sub- total</b>			
<b>b) On - call deposits</b>			
Kenya Commercial bank			
Equity Bank - etc			
<b>Sub- total</b>			
<b>c) Current account</b>			
Family Bank	088000006101	6,589,214	20,235,782
Family Bank	088000006103	11,680,250	5,255,750
Family Bank	088000006104	1,126,447	971,886
Family Bank	088000007620	6,485,597	15,123,575
<b>Sub- total</b>		<b>25,881,508</b>	<b>41,586,993</b>
<b>d) Others(specify)</b>			
Cash in transit			
Cash in hand			
<b>Sub- total</b>			
<b>Grand total</b>			

7. Receivables from exchange transactions

Description	2020/2021 KShs	2019/2020 KShs
<b>Current Receivables</b>		
Interest receivable	701,900	103,061
Current loan repayments due	2,682,486	29,747,310
Other exchange debtors		-
Less: impairment allowance	-	-
<b>Total Current receivables</b>	<b>3,384,386</b>	<b>29,747,310</b>
<b>Non Current receivables</b>		
Long term loan repayments due	277,832,130	204,970,185
<b>Total Non- current receivables</b>	<b>277,832,130</b>	<b>204,970,185</b>
<b>Total receivables from exchange transactions</b>	<b>281,216,516</b>	<b>234,820,556</b>

**Makueni County State and Public Officers Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2021**

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

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

Description	2020/2021	2019/2020
	KShs	KShs
Trade payables	8,681,400	
Refundable deposits	-	-
Accrued expenses	1,190,093	2,132,700
Other payables		-
<b>Total trade and other payables</b>	<b>9,871,493</b>	<b>2,132,700</b>

**9. Cash generated from operations**

	2020/2021	2019/2020
	KShs	KShs
<b>Surplus/ (deficit) for the year before tax</b>		
<b>Adjusted for:</b>		
Depreciation		
Amortisation		
Gains/ losses on disposal of assets		
Interest income	7,788,340	2,958,468
Finance cost		
<b>Working Capital adjustments</b>		
Increase in inventory		
Increase in receivables	46,499,021	18,607,264
Increase in payables	(7,738,793)	(18,926,267)

**10. Cash flows from investing activities**

	2020/2021	2019/2020
	KShs	KShs
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment		
Proceeds from loan principal repayments	28,727,818	28,776,928
Loan disbursements paid out	(65,830,500)	(94,785,741)
<b>Net cash flows used in investing activities</b>	<b>(37,102,682)</b>	<b>(66,008,813)</b>

**Makueni County State and Public Officers Car Loan and Mortgage Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2021**

**11. Cash flows from financing activities**

<b>Cash flows from financing activities</b>	<b>2020/2021</b>	<b>2019/2020</b>
Proceeds from revolving fund receipts	20,000,000	40,000,000
Additional borrowings		
Repayment of borrowings		
<b>Net cash flows used in financing activities</b>	<b>20,000,000</b>	<b>40,000,000</b>

**12. 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**

	<b>2020/2021</b>	<b>2019/2020</b>
	<b>KShs</b>	<b>KShs</b>
Transfers from related parties'		
Transfers to related parties		

**c) Key management remuneration**

	<b>2020/2021</b>	<b>2019/2020</b>
	<b>KShs</b>	<b>KShs</b>
Board of Trustees		
Key Management Compensation		
<b>Total</b>		

**d) Due from related parties**

	<b>2020/2021</b>	<b>2019/2020</b>
	<b>KShs</b>	<b>KShs</b>
Due from County Government		
Due from Key management personnel	4,085,599.79	19,107,990
<b>Total</b>	<b>4,085,599.79</b>	<b>19,107,990</b>

**Makueni County State and Public Officers Car Loan and Mortgage Fund**  
**Reports and Financial Statements**  
**For the year ended June 30, 2021**

**e) Due to related parties**

	2020/2021	2019/2020
	KShs	KShs
Due to parent Ministry		
Due to County Government		
Due to Key management personnel		
<b>Total</b>		

**13. Contingent assets and contingent liabilities**

<b>Contingent liabilities</b>	2020/2021	2019/2020
	KShs	KShs
Court case xxx against the Fund		
Bank guarantees		
<b>Total</b>		