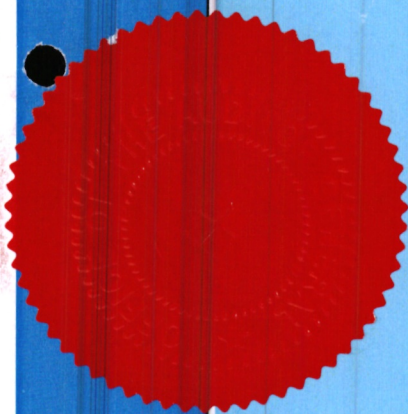


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REPUBLIC OF KENYA



Enhancing Accountability



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REPORT

**OF
THE AUDITOR-GENERAL**

ON

**KAKAMEGA COUNTY MICROFINANCE
CORPORATION**

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





**COUNTY GOVERNMENT OF KAKAMEGA
KAKAMEGA COUNTY MICROFINANCE CORPORATION**

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

KAKAMEGA COUNTY MICROFINANCE CORPORATION
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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The Kakamega County Microfinance Corporation was established by the County Government of Kakamega through the Kakamega County Microfinance Corporation Act, 2018 and commenced operations in the financial year 2019-2020. The Corporation is wholly owned by the County Government of Kakamega and is domiciled in Kenya.

The Fund's principal activity is to provide microfinance banking services to micro, small and medium enterprises in the County

b) Principal Activities

The principal activity of the Corporation is to provide microfinance banking services to micro, small and medium enterprises in the County. This will in turn spur socio-economic development in the County.

c) Board of Trustees/Fund Administration Committee

Ref	Position	Name
1	Chairman of the Board	Christopher Aleke Dondo
2	Chief Officer (<i>Responsible department</i>)	Fanuel Wemali Angaya
3	Chief Officer finance	Amb. James Ochami
4	Other trustees/Committee Member	Protas Inziani Khasiani
5	Other trustees/Committee Member	Benter Achieng Okoth
6	Other trustees/Committee Member	Gideon Olieki Kato
7	Other trustees/Committee Member	Gilbert Wafula Nyongesa
8	Ag. County Attorney	Vivianne M. Komwonyo
9	Fund Manager/ Administrator	Barasa Wangwe

d) Key Management

Ref	Position	Name
1	Fund Manager/ Administrator	Barasa Wangwe
2	Fund Accountant	Jessica Matini

e) Fiduciary Oversight Arrangements

KAKAMEGA COUNTY MICROFINANCE CORPORATION
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Ref	Position	Name
1	County Assembly	Assembly Committees
2	Auditor General	Office of Auditor general
3	National Treasury	Directorate of Accounting Services
4	Controller of budget	Office of COB

f) Registered Offices

P.O. Box 36-50100, 056 31850/31852/31853

County Headquarters

Kisumu/Kitale Highway

Kakamega, KENYA

g) Fund Contacts

Telephone: 056 31850/31852/31853

E-mail: kcmfc@kakamega.go.ke

Website: kakamega.go.ke

h) Fund Bankers

KCB Ltd-Kakamega branch

i) Independent Auditors

Auditor General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

j) Principal Legal Adviser

The Attorney General

State Law Office




Harambee Avenue

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P.O. Box 40112
City Square 00200
Nairobi, Kenya

County Attorney
County Government of Kakamega
P.O Box 36-50100
Kakamega, Kenya



2. THE BOARD OF TRUSTEES/ FUND ADMINISTRATION COMMITTEE

Name	Details of qualifications and experience
<p>Christopher Aleke Dondo-Chairman</p> 	<p>MA Economics- Has wide experience in the microfinance industry having served as Deputy MD and MD for K Rep Development Agency.</p> <p>Currently he is the Principal consultant at Legacy Consulting Ltd a consultancy firm in microfinance and governance.</p>
<p>Protas Inziani Khasiani-Member</p> 	<p>MBA (Banking and Finance)</p> <p>Has vast experience in the banking industry having worked as a senior manager in the said industry for more than 15 years.</p> <p>Currently, he is the Executive Director of Klientele Ltd, a consultancy firm in business process re-engineering and change.</p>
<p>Benter Achieng Okoth-Member</p> 	<p>PhD candidate, MBA (Marketing)</p> <p>Has been an administrator for more than 9 years.</p> <p>Currently serving as a lecturer at Jaramogi Oginga Odinga University of Science and Technology</p>
<p>Gideon Olieki Kato-Member</p>	<p>MBA (Strategic Management)</p> <p>Has worked in the microfinance and sugar industry for more than 5 years.</p>

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	<p>Currently serving as a lecturer at MMUST</p>
<p>Gilbert Wafula Nyongesa-Member</p>	<p>MBA(Finance), CPA(K), CPS(K) Has been a general manager and Finance and administration manager for more than 15 years in the Sacco industry. Currently is serving as a director at Bukura Agricultural College.</p>
	<p>Chief Officer, MTIT PHD in Education Planning and Management</p>
<p>Fanuel Wemali Angaya-Member</p>	<p>Chief Officer, Finance MBA in strategic management Bcom (Finance and Accounting),CPAK,CS</p>
	<p>Ag. County Attorney</p>
<p>Vivianne M Komwonyo-Member</p>	

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	<p>Masters of Law, Bachelor of Law.</p>
<p>John Barasa Wangwe-CEO & Secretary to the Board</p> 	<p>PhD candidate (M&E), MA (Environmental Planning), Senior Management course and Strategic Leadership Development course.</p> <p>Has served as the Deputy Director of Water at NEMA for more than 15 years. Has also served as the CECM for Water, Environment and Natural resources at the County Government of Kakamega.</p> <p>Currently, he is the Ag. Chief Executive Officer of the Corporation.</p>

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

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the County Government fund performance against predetermined objectives.

Kakamega County Microfinance Corporation has 2 strategic pillars and objectives within the current Strategic Plan for the FY 2020-2021. These strategic pillars are as follows:

1: Provide micro banking services to micro, small and medium enterprises in the County

The fund develops its annual work plans based on the above 2 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The fund achieved its performance targets set for the FY 2020/2021 period for its two strategic pillars, as indicated in the diagram below:

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
1:Provision of Loans to small traders within the County	Improve the livelihoods of residence in the county	Loans provided worth Kshs 25M	Improving small trade businesses	Well performing businesses within the County

During the year under review, the Corporation disbursed a total Kshs. 25,210,000 to over 300 traders spread all over the County. The main aim of the Corporation is to provide its services to all deserving traders in all areas of the County. Loan recovery as at 30.06.2021 stood at Kshs. 8,873,949. The COVID-19 Pandemic negatively affected our activities leading to low service delivery as our offices remained closed for the better part of the year under review.

The Corporation developed a lending Manual/Credit Guidelines which guide its day to day loaning activities. A draft Strategic Plan which is still under review by various stakeholders was also developed. This document will provide the strategic direction of the Corporation.

The law requires that the Board of Directors should hold a minimum of 4 meetings in a year which was achieved. Key decisions regarding the operations of the Corporation were made that have seen it where it is today.

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The fund total budget was Kshs 45 million, broken down into operation of Kshs 9 million and Loans of Kshs 36 million.

The fund received a total of Kshs 73, 963, 001 representing 164% of the budget, included in this is Kshs 73M from County Treasury and Kshs 963,001 from interest and loan processing fee



The total operation expenses for the fund were Kshs 7,291,128.00 and Kshs 25,210,000 was issued out as loans to traders within Kakamega County which represents 70% of the total budget

KAKAMEGA COUNTY MICROFINANCE CORPORATION

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For the Year ended 30th June, 2021

4. MANAGEMENT TEAM

Name	Details of qualifications and experience
<p>1. John Barasa Wangwe</p> 	<p>PhD candidate (M&E), MA (Environmental Planning), Senior Management course and Strategic Leadership Development course.</p> <p>Has served as the Deputy Director of Water at NEMA for more than 15 years. Has also served as the CECM for Water, Environment and Natural resources at the County Government of Kakamega.</p> <p>Currently, he is the Ag. Chief Executive Officer of the Corporation.</p>
<p>2. Stephen W.A Makokha</p> 	<p>MBA(Finance), CPA II</p> <p>Has over 10 years of experience in the banking and microfinance industries. Currently he is the Micro and Small Enterprise Development Officer of the Corporation.</p>

5. BOARD/FUNDADMINISTRATION COMMITTEE CHAIRPERSON'S REPORT

Kakamega County Microfinance Corporation was established by an Act of the County Assembly in the year 2018 with the main mandate of providing financial solutions to micro, small and medium traders within the County. It began its operations in the financial year 2019/2020 but due to financial challenges, loaning which is its core mandate did not kick off immediately.

The Corporation begun as a credit only microfinance but the ultimate goal is to become a microfinance bank as envisioned by the County Leadership.

In view of the foregoing, the Corporation must create a bigger impact on enterprise development in order to play its rightful role in the County and/or nation's development by rethinking its business model to reach more businesses efficiently, effectively and in a sustainable manner. The Corporation must also be an attractive partner in youth and women economic empowerment to attract funding from all potential sources and win the confidence and goodwill of all Kakamega business people. The Corporation's capacity to deliver the strategy is critical. Its legal, policy, instructional, technological and competence frameworks shall be adequately strengthened over time and an environment conducive to attract and retain requisite skills created.

To remain sustainable in the long run and reduce its dependence on government funding, the Corporation shall expand and restructure its product portfolio, diversify its sources of funding and adopt a business approach in its operations.

In conclusion, I call on all stakeholders to effectively play their part in supporting the Corporation to realize its mandate. It will require a lot of dedication, success and hardworking on the part of all stakeholders to make this big dream comes true.



Christopher Aleke Dondo

Board Chairperson

KAKAMEGA COUNTY MICROFINANCE CORPORATION
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6. REPORT OF THE FUND MANAGER/ ADMINISTRATOR

Kakamega County Microfinance Corporation was established by an Act of the County Assembly of Kakamega in 2018 with the mandate of giving affordable credit and financial banking services to the less privileged small scale traders in the County.

The Kakamega County Microfinance Corporation presents its financial statements for the period ended 30th June, 2021 in accordance with the format prescribed by the Public Sector Accounting Standards Board. The Corporation operates as a semi autonomous agency controlled by the County Government of Kakamega. It will provide focussed attention on traders' financial needs and also ensure that the disbursed loans are repaid on time in order to benefit as many enterprises as possible. It began its operations in the year financial year 2019/2020. The disbursement of loans started in the year under review.

The Corporation was allocated Kes. 45M last financial year 2020/2021 and as at 30.06.2021, the Corporation had disbursed Kshs. 25,210,000 to over 300 traders spread across the County.

With the onset of COVID-19 Pandemic, the microfinance loan facility came in handy in cushioning the traders against possible predictable profit losses and business closure as terms and conditions of loaning are negotiated and repayment schedules flexed. This way, adjustments are always in favor of the clientele. Products such as refinancing and loan top ups have also been introduced.

These interventions coupled with capacity building and personalized business mentorship have gone a long way in helping small businesses to thrive in better during the Pandemic. Through these approaches, the traders' resilience has been built and confidence in the facility enhanced.

Currently loan repayments are overwhelmingly positive at over 90%.



John Barasa Wangwe

Ag: - Chief Executive Officer

7. CORPORATE GOVERNANCE STATEMENT

a. Number of Fund Administration Committee meetings held and the attendance to those meetings by members,

The current Board was competitively recruited and sworn in, in the Financial Year 2019/2020. The Board held four meetings attended by all members in the year under review. Board committees were also constituted and their terms of references developed. These committees are Finance & Administration Committee, Credit Committee and Audit and Risk/Compliance Committee.

b. Succession plan,

The Board of Directors are always competitively recruited and legally constituted after their term has ended.

c. Existence of a service charter,

Currently there is no service charter, the management is in the process of preparing one to be approved by the board.

d. Process of appointment and removal of trustees/ Administration Committee members,

Members are appointed by the CEC Ministry of Trade, industrialisation and tourism and thereafter vetted by the county public service board. Member can be removed by the resolution of the full board and notification to the Appointing authority if he or she has not adhered to the regulations of the board.

e. Roles and functions of the Administration Committee members,

The following are the roles and functions of the administration committee members

- Delegate tasks to Sub Committees
- Seek external advice
- Deals with administration matters

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f. Induction and training, Administration Committee members and member's performance,

Members are always inducted after engagement and are frequently trained on quarterly basis

g. Conflict of interest,

At the beginning of every Board meeting, members were requested to declare if they had any conflict of interest issues on the agenda at hand.

No conflict of interests was raised during board meeting

h. Board remuneration,

The Board Chairman is entitled to a monthly honorarium of Kshs. 50,000 and airtime allowance of Kshs. 5,000. Board members are paid sitting allowances of between Kes 4,000 and Kshs. 15,000 while attending Board meetings. Independent Board members are also reimbursed travel allowances.

i. Ethics and conduct as well as governance audit undertaken if any

No ethics and conduct as well as governance audit conducted.

8. MANAGEMENT DISCUSSION AND ANALYSIS

a. On the operational and financial performance of the Fund/Board during the period,

The Corporation received a total of Kshs. 73m for its recurrent and development activities for the Financial Year 2020/2021. Kshs. 25,210,000 out of those funds budgeted for loans, was disbursed to more than 300 traders. From these disbursements, the Corporation received over Kshs. 150,000 in processing fees and over Kshs. 300,000 as interest on loans paid.

b. Entity's key projects or investments decision implemented or ongoing,

The Corporation had envisaged opening of 3 regional offices in the 3 regions namely; northern, southern and central but the challenges posed by the COVID-19 Pandemic made it practically impossible. We however endeavour to take our services closer to the citizens of this County.

c. Fund's compliance with statutory requirements,

The fund has complied with the required statutory requirements

d. Major risks facing the Fund, material arrears in statutory and other financial obligations

The delays in receiving of the funds and the COVID-19 Pandemic slowed down loan disbursements.

No enough capacity in enforcement of loan recoveries.

e. Any other information considered relevant to the users of the financial statements.

The fund is in its initial stages of operation and is still picking up gradually

9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

1. Sustainability Strategy and Profile

The Corporation was established by an Act of the County Assembly. Its credit manual provides for 2% levy on all loans as processing fees and 8% per annum interest on reducing balance paid monthly. The processing fee is charged upfront on disbursement. This income revolves in the loaning kitty and the aim is to grow it for purposes of reaching as many traders as possible.

The fees may be reviewed upwards in future depending on the strategic direction of the Corporation.

The County Treasury through the Corporation's parent Ministry continues to budget for funds to support the Corporation in achieving its mandate.

2 Environmental performance

The Fund is in the process of developing its strategic plan and its environmental policy which will also be captured in this plan. However, the loans that have been issued to the business people have improved their living standards of within the County through expansion of their businesses.

3 Employee Welfare

The Corporation is currently relying on seconded staff from the parent Ministry of Trade, Industrialization and Tourism. It intends to develop its policies guiding staff hiring process, job descriptions, terms of references and performance contracting as it moves toward autonomy. The current staffs conform to Public Service hiring and appraisal policies.

The entity's management conducts weekly/monthly meetings with its staff allowing them to share their success stories and challenges while preparing monthly work plans. Where possible and when resources allow, the staffs are supported to attend short courses,

professional development courses, workshops and seminars to improve their skills and work performance.

The entity is also in compliance with Occupational Safety and Health Act of 2007.

4 Market Place Practices

a) The Corporation being a County Corporation has trained its staff on Code of Conduct of public servants and the Ethics and Anticorruption Act. It's funded by public funds and ensures high standards of corporate governance. Our products are fairly priced thus attracting traders from all sectors of the economy.

All Corporation staffs conform and adhere to the public service code of conduct and remain apolitical while delivering services to the public.

b) The Corporation being a public entity works within structures created by the National and County Governments that govern public procurement. It works within the confines of public procurement act and public finance management act and respects its suppliers and is open to scrutiny in the public procurement process. Our procurement officer is regularly allowed to attend trainings and workshops that help him improve skills in public procurement management.

5. Community engagement

The Fund core activity is to give loans to small scale traders within the County and to improve their business performance.

KAKAMEGA COUNTY MICROFINANCE CORPORATION
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10. REPORT OF THE TRUSTEES/ 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.

10.1 Principal activities

The principal activity of the Corporation is to provide microfinance banking services to micro, small and medium enterprises in the County. This will in turn spur socio-economic development in the County.

10.2 Performance

The performance of the Fund for the year ended June 30, 2021, are set out on page 22

10.3 Trustees

The members of the Administration Committee who served during the year are shown on pages 5, 6 and 7.

10.4 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

Kakamega County Microfinance Corporation

Sign: 

Name: Christopher Aleke Donda

Chair of the Board/ Fund Administration Committee

Date: 11/4/2022

11. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a County Public Fund established by the PFM 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 the County Assembly Act. 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.

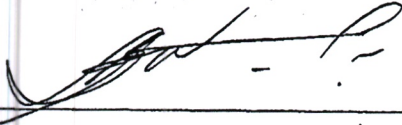
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In preparing the financial statements, the Administrator of the County Public Fund has assessed the Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the 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 30.09. 2021 and signed on its behalf by:



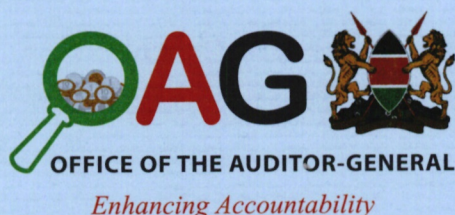
Name:

Baraya Wangwe

Administrator of the County Public Fund

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON KAKAMEGA COUNTY MICROFINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kakamega County Microfinance Corporation set out on pages 22 to 67, which comprise of the statement of financial

Report of the Auditor-General on Kakamega County Microfinance Corporation for the year ended 30 June, 2021

position as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kakamega County Microfinance Corporation 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), 2012 and comply with the Public Finance Management Act, 2012 and the Kakamega County Microfinance Corporation Act, 2018.

Basis for Qualified Opinion

1. Inaccurate Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects budgeted transfers from County Government – operations of Kshs.9,000,000 and transfers from County Government – revolving fund of Kshs.36,000,000. However, the budget provided for audit reflected Kshs.13,673,890 and Kshs.127,200,000 respectively, resulting to an unreconciled variances of Kshs.4,673,890 and Kshs.91,200,000 respectively.

The statement also reflects actual receipts of Kshs.73,963,001 and actual expenditure of Kshs.32,501,128. However, the balances differed with the corresponding amounts in the statement of financial performance of Kshs.9,963,001 and Kshs.7,291,128. The respective differences of Kshs.64,000,000 and Kshs.25,210,000 were not explained or reconciled.

In the circumstances, the accuracy of the statement of comparison of budget and actual amounts could not be confirmed.

2. Variance on Other Income

The statement of financial performance and as disclosed in Note 5 reflects an amount of Kshs.175,776 relating to other income. However, the amount differs from the supporting schedule balance of Kshs.504,200. The difference of Kshs.328,424 was not explained or reconciled.

Consequently, the accuracy of the other income balance of Kshs.175,776 could not be confirmed.

3. Unconfirmed Restatements of Financial Statements Comparative Balances

The financial statements for the year ended 30 June, 2021 reflects comparative balances that have been restated. However, the Management has not provided the restated financial statements for audit verification.

In the circumstances, the comparative balances in the financial statements for the year ended 30 June, 2021 could not be confirmed.

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing 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

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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Failure to Appoint a Substantive Chief Executive Officer

Since 2019, the Corporation was headed by an acting Chief Executive Officer who was seconded from the County Executive of Kakamega. This is contrary to Section 13(1) of the Kakamega County Micro Finance Corporation Act, 2018 which provides that there shall be a Chief Executive Officer of the Agency who shall be appointed by the Governor from among three (3) nominees recruited and recommended by the Board of Directors subject to the powers of the County Public Service Board under Section 6 of the Kakamega County Public Service Board Act and who shall serve for a period of four (4) years which may be renewed once upon satisfactory performance.

Further, it was not explained how the acting Chief Executive Officer was being remunerated since his salary and emoluments were not disclosed in the financial statements of the Fund.

In the Circumstances, the Management was in breach of the law.

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

Responsibilities of Management and the Board of Trustees

The 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 the 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, the Management is responsible for assessing the Corporation's 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 terminate the Corporation or to cease operations.

The 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, the Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

Report of the Auditor-General on Kakamega County Microfinance Corporation for the year ended 30 June, 2021

- 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 Corporation's ability to continue to sustain 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 Corporation to cease to continue to sustain 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 Corporation 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

18 July, 2022

Report of the Auditor-General on Kakamega County Microfinance Corporation for the year ended 30 June, 2021


KAKAMEGA COUNTY MICROFINANCE CORPORATION**Annual Reports and Financial Statements****For the Year ended 30th June, 2021****13. FINANCIAL STATEMENTS****13.1 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2021.**

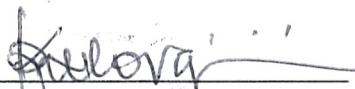
	Note	2020/2021 Kshs	2019/2020 Kshs
Revenue from non-exchange transactions			
Public contributions and donations	1	0.00	0.00
Transfers from the County Government	2	9,000,000.00	17,250,000.00R
Fines, penalties and other levies	3	0.00	0.00
Sub Total		9,000,000.00	17,250,000.00
Revenue from exchange transactions			
Interest income	4	787,225.00	0.00
Other income	5	175,776.00	0.00
Sub Total		963,001.00	0.00
Total revenue		9,963,001.00	17,250,000.00
Expenses			
Fund administration expenses	6	961,210.00	0.00
General expenses	7	6,329,918.00	1,077,759.00R
Finance costs	8	0.00	2,170.00
Total expenses		7,291,128.00	1,079,929.00
Other gains/losses			
Gain/loss on disposal of assets	9	0.00	0.00
Surplus for the period		2,671,873.00	16,170,071.00

R-Restatement of the figure for 2019/2020

The notes set out on pages 49 to 68 form an integral part of these Financial Statements.

The entity financial statements were approved on 30.09. 2021 and signed by:


 Fund Administrator
 Name: Barasa Wangwe


 Fund Accountant
 Name: 10990
 ICPAK Member Number

KAKAMEGA COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended 30th June, 2021

13.2 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

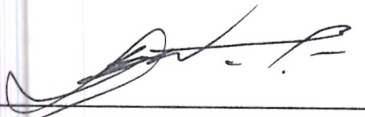
	Note	2020/2021	2019/2020
		Kshs	Kshs
Assets			
Current assets			
Cash and cash equivalents	10	71,130,180.00	40,856,134.00
Current portion of long- term receivables from exchange transactions	11	10,925,993.00	0.00
Receivables from Non- exchange transactions	12	19,320,000.00	0.00
		101,376,173.00	40,856,134.00
Non-current assets			
Long term receivables from exchange transactions	11	5,829,739.00	0.00
Prepayments	13	0.00	0.00
Inventories	14	0.00	0.00
Property, plant and equipment	15	886,033.00	563,937.00R
		6,715,772.00	563,937.00
Total assets		108,091,945.00	41,420,071.00
Liabilities			
Current liabilities			
Intangible Assets	16	0.00	0.00
Trade and other payables from exchange transactions	17	0.00	0.00
Provisions	18	0.00	0.00
Current portion of borrowings	19	0.00	0.00
Employee benefit obligations	20	0.00	0.00
Non-current liabilities		0.00	0.00
Long term portion of borrowings		0.00	0.00
Non-current employee benefit obligation		0.00	0.00
Total liabilities		0.00	0.00
Net assets			
		108,091,945.00	41,420,071.00
Revolving Fund		89,250,000.00	25,250,000.00
Revaluation Reserve		0.00	0.00
Accumulated surplus		18,841,945.00	16,170,071.00

KAKAMEGA COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended 30th June, 2021

	Note	2020/2021	2019/2020
		Kshs	Kshs
Total net assets and liabilities		108,091,945.00	41,420,071.00

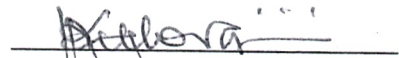
R-Restatement of the figure for 2019/2020

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 30.09 2021 and signed by:



Fund Administrator

Name: *Baraka Wangwe*



Fund Accountant

Name: 10990

ICPAK Member Number:

KAKAMEGA COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements
For the Year ended 30th June, 2021

13.3 STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2021

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		Kshs	Kshs	Kshs
Balance as at 1 July 2019				
Surplus/(deficit) for the period	0.00	0.00	16,170,071.00	16,170,071.00R
Funds received during the year	0.00	0.00	0.00	0.00
Revaluation gain	0.00	0.00	0.00	0.00
Revolving fund	25,250,000.00	0.00	0.00	25,250,000.00R
Balance as at 30 June 2020	25,250,000.00	0.00	16,170,071.00	41,420,071.00R
Balance as at 1 July 2020	25,250,000.00	0.00	16,170,071.00	41,420,071.00R
Surplus/(deficit) for the period	0.00	0.00	2,671,873.00	2,671,873.00
Transfer to Revolving Fund	0.00	0.00	0.00	0.00
Funds received during the year	64,000,000.00	0.00	0.00	64,000,000.00
Revaluation gain	0.00	0.00	0.00	0.00
Balance as at 30 June 2021	89,250,000.00	0.00	18,841,945.00	108,091,945.00

R-Restatement of the figures for the 2019-2020

KAKAMEGA COUNTY MICROFINANCE CORPORATION

Annual Reports and Financial Statements

For the Year ended 30th June, 2021

13.4 STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2020/2021	2019/2020
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Public contributions and donations	1	0.00	0.00
Transfers from the County Government	2	9,000,000.00	17,250,000.00R
Fines, penalties and other levies	3	0.00	0.00
Interest Income	4	787,225.00	0.00
Receipts from other operating activities	5	175,776.00	0.00
Total Receipts		9,963,001.00	17,250,000.00
Payments			
Fund administration expenses	6	961,210.00	0.00
General expenses	7	6,329,918.00	1,077,759.00R
Finance cost	8	0.00	2,170.00
Total Payments		7,291,128.00	1,079,929.00
Net cash flows from operating activities		2,671,873.00	16,170,071.00
Changes in cash and cash equity			
Changes in trade receivables		(19,320,000.00)	0.00
Changes in trade receivables		(16,755,732.00)	0.00
Net changes in cash and cash equity		(36,075,732.00)	0.00
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	15	(396,720.00)	(644,500.00)
Proceeds from sale of property, plant and equipment		0.00	0.00
Proceeds from loan principal repayments		0.00	0.00
Add back depreciation	15	74,625.00	80,563.00R
Net cash flows used in investing activities		(322,095.00)	(563,937.00)
Cash flows from financing activities			
Proceeds from revolving fund receipts		0.00	0.00
Additional Funding		64,000,000.00	25,250,000.00
Net cash flows used in financing activities		64,000,000.00	25,250,000.00
Net increase/(decrease)in cash and cash equivalents		30,274,046.00	40,856,134.00
Cash and cash equivalents at 1 JULY	10	40,856,134.00	0.00
Cash and cash equivalents at 30th JUNE	10	71,130,180.00	40,856,134.00

KAKAMEGA COUNTY MICROFINANCE CORPORATION
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R-Restatement of the figure for 2019/2020

The statement of the cash flow has been prepared using a direct method

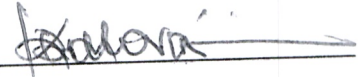
The entity financial statements were approved on 30.06 2021 and signed by:



Fund Administrator

Name:

Basaya Wangwe



Fund Accountant

Name:

10990

ICPAK Member Number:

KAKAMEGA COUNTY MICROFINANCE CORPORATION

Annual Reports and Financial Statements

For the Year ended 30th June, 2021

13.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE 2021.

	Original budget	Adjustments	Final budget	Actual on comparable basis	Utilization
	2021	2021	2021	2021	2021
	Kshs	Kshs	Kshs	Kshs	%
Revenue					
Transfers from County Govt.- operations	9,000,000.00	0.00	9,000,000.00	9,000,000.00	100
Transfers from County Govt.- Revolving fund	36,000,000.00	0.00	36,000,000.00	64,000,000.00	178
Interest income	0.00	0.00	0.00	787,225.00	100
Other income	0.00	0.00	0.00	175,776.00	100
Total income	45,000,000.00	0.00	45,000,000.00	73,963,001.00	164
Expenses					
Fund administration expenses	1,000,000.00	0.00	1,000,000.00	961,210.00	96
General expenses	8,000,000.00	0.00	8,000,000.00	6,329,918.00	80
Transfer to revolving fund	36,000,000.00	0.00	36,000,000.00	25,210,000.00	70
Total expenditure	45,000,000.00	0.00	45,000,000.00	32,501,128.00	72
Surplus for the period					

Budget notes

1. Other income includes interest and loan processing fees which were not budgeted for during the year but will be budgeted for in the subsequent years.
2. Development funds were used to disburse loans to traders. Outstanding Loans as at 30 June 2021 are captured in the statement of financial position under receivables

13.6 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.

KAKAMEGA COUNTY MICROFINANCE CORPORATION

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For the Year ended 30th June, 2021

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. 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 st 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.
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	N/A

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For the Year ended 30th June, 2021

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>IPSAS 41: Financial Instruments</p>	<p>Applicable: 1st January 2022:</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"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
<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;</p>

KAKAMEGA COUNTY MICROFINANCE CORPORATION

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For the Year ended 30th June, 2021

Standard	Effective date and impact:
	(b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<p>Applicable: 1st January 2022:</p> 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. 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.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Early adoption of standards

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

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.

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.

4. Budget information

The original budget for FY 2020/2021 was approved by the County Assembly on June 2020. 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.

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 cash basis. The amounts in the financial statements were

KAKAMEGA COUNTY MICROFINANCE CORPORATION

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For the Year ended 30th June, 2021

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

The depreciation value on furniture and fittings was applied at a rate of 12.5% using a reducing balance method

6 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.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7 Financial instruments

a) 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.

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 an entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a

KAKAMEGA COUNTY MICROFINANCE CORPORATION

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 an 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)

b) 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.

8 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.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

9 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

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

10 Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements.

11 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.

12 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 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.

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

13 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.

14 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.

15 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/Trustee, the Fund Managers and Fund Accountant.

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16 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 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.

17 Comparative figures

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

18 Events after the reporting period

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

19 Ultimate and Holding Entity

The Kakamega county microfinance corporation is a County Public Fund established by County Assembly Act under the Department of Trade and industrialisation. Its ultimate parent is the County Government of Kakamega.

20 Currency

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

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21 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:

a) Estimates and assumptions

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

b) Useful lives and residual values

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

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

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Provisions

Provisions were raised on depreciation value of property plant and

22 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.

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2021				
Receivables from exchange transactions	16,755,732.00	16,755,732.00	0.00	0.00
Receivables from non-exchange transactions	19,320,000.00	19,320,000.00	0.00	0.00
Bank balances	0.00	0.00	0.00	0.00
Total	36,075,732.00	36,075,732.00	0.00	0.00
At 30 June 2020				
Receivables from exchange transactions	0.00	0.00	0.00	0.00
Receivables from non-exchange transactions	0.00	0.00	0.00	0.00
Bank balances	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00

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.

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Fund Administrator, who has built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows. The table below represents cash flows payable by the Fund under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1- 3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2021				
Trade payables	0.00	0.00	0.00	0.00
Current portion of borrowings	0.00	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00
Employee benefit obligation	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00
At 30 June 2020				
Trade payables	0.00	0.00	0.00	0.00
Current portion of borrowings	0.00	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00
Employee benefit obligation	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Market risk

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. The Fund's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

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

d) Foreign currency risk

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

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

		Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2021			
Financial assets	0.00	0.00	0.00
Investments	0.00	0.00	0.00
Cash	0.00	0.00	0.00
Debtors/ receivables	0.00	0.00	0.00
Liabilities			
Trade and other payables	0.00	0.00	0.00
Borrowings	0.00	0.00	0.00
Net foreign currency asset/(liability)	0.00	0.00	0.00

Foreign currency sensitivity analysis

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

	Change in currency rate	Effect on surplus/ deficit	Effect on Equity
	Kshs	Kshs	Kshs
2021			
Euro	10%	0.00	0.00
USD	10%	0.00	0.00
2020			
Euro	10%	0.00	0.00
USD	10%	0.00	0.00

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Interest rate risk

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

Management of interest rate risk

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

Sensitivity analysis

The Fund analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

f) 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:

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	2020/2021	2019/2020
	Kshs	Kshs
Revaluation reserve	0.00	0.00
Revolving fund	0.00	0.00
Accumulated surplus	0.00	0.00
Total funds	0.00	0.00
Total borrowings	0.00	0.00
Less: cash and bank balances	0.00	0.00
Net debt/(excess cash and cash equivalents)	0.00	0.00
Gearing	0.00	0.00

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14. NOTES TO THE FINANCIAL STATEMENTS

1. Public contributions and donations

Description	2020/2021	2019/2020
	Kshs	Kshs
Donation from development partners	0.00	0.00
Contributions from the public	0.00	0.00
Total	0.00	0.00

During this period the fund did not receive any money from any institution as a donation, since it has not developed any policy or any engagements with other partners for its operations.

2. Transfers from County Government

Description	2020/2021	2019/2020
	Kshs	Kshs
Transfers from County Govt. – operations	9,000,000.00	17,250,000R
Payments by County on behalf of the entity	0.00	0.00
Total	9,000,000.00	17,250,000

The total amount received by the fund for the FY 2020-2021 was Kshs 73,000,000 out of which Kshs 9,000,000 was for operations and Kshs 64,000,000 was money meant for loans to traders which was credited in the revolving fund.

3. Fines, penalties and other levies

Description	2020/2021	2019/2020
	Kshs	Kshs
Late payment penalties	0.00	0.00
Fines	0.00	0.00
Levies	0.00	0.00
Licences	0.00	0.00
Total	0.00	0.00

The loaning exercise started in the FY 2020-2021 and loans are issued on a period term repayment of 12 months therefore there was no any fines or any form of penalties from the loans.

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4. Interest income

Description	2020/2021	2019/2020
	Kshs	Kshs
Interest income from Mortgage loans	0.00	0.00
Interest income from car loans	0.00	0.00
Interest income from Loans	787,225.00	0.00
Interest income on bank deposits	0.00	0.00
Total interest income	787,225.00	0.00

The amount of Interest earned on loans issued to traders was Kshs 787,225

5. Other income

Description	2020/2021	2019/2020
	Kshs	Kshs
Insurance recoveries	0.00	0.00
Income from sale of tender documents	0.00	0.00
Processing fees	175,776.00	0.00
Total other income	175,776.00	0.00

These are fees charged on loans borrowed as processing fees.

6. Fund administration expenses

Description	2020/2021	2019/2020
	Kshs	Kshs
Staff costs (Note 6a)	0.00	0.00
Loan processing costs	0.00	0.00
Professional services costs	0.00	0.00
Chairman honorarium	961,210.00	0.00
Total	961,210.00	0.00

The chairman of the board is entitled to a monthly allowance of Kshs 50,000 and an addition
airtime of Kshs 5,000 monthly.

6A. Staff costs

Description	2020/2021	2019/2020
	Kshs	Kshs
Salaries and wages	0.00	0.00
Staff gratuity	0.00	0.00
Staff training expenses	0.00	0.00
Social security contribution	0.00	0.00
Other staff costs	0.00	0.00
Total	0.00	0.00

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. General expenses

Description	2020/2021	2019/2020
	Kshs	Kshs
Consumables(GOS)	353,431.00	114,296.00
Electricity and water expenses	19,648.00	0.00
Fuel and oil costs	625,000.00	0.00
Insurance costs	0.00	0.00
Postage	0.00	0.00
Printing and stationery	480,800.00	124,450.00
Rental costs	0.00	0.00
Security costs	0.00	0.00
Telecommunication	377,749.00	0.00
Bank Charges	51,389.00	0.00
Hospitality	438,196.00	439,650.00
Depreciation and amortization costs	74,625.00	80,563.00R
Daily Subsistence Allowance	2,571,110.00	100,000.00
Training	1,337,970.00	218,800.00
Total	6,329,918.00	1,077,759.00

R-Restatement of the figure for 2019/2020

8. Finance costs

Description	2020/2021	2019/2020
	Kshs	Kshs
Interest on Bank overdrafts	0.00	0.00
Interest on loans from banks	0.00	0.00
Bank charge	0.00	2,170
Total	0.00	2,170.00

In the FY 2020-2021 the bank charges were classified under general expenses.

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9. Gain/(loss) on disposal of assets

Description	2020/2021	2019/2020
	Kshs	Kshs
Property, plant and equipment	0.00	0.00
Intangible assets	0.00	0.00
Total	0.00	0.00

10. Cash and cash equivalents

Description	2020/2021	2019/2020
	Kshs	Kshs
Operation A/c KCB -1258591545	33,783,891.00	40,856,134.00
Loan Payment A/c KCB-1258591944	37,165,969.00	0.00
Loan Interest A/c-KCB-1281337595	180,320.00	0.00
Total cash and cash equivalents	71,130,180.00	40,856,134.00

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

Financial institution	Account number	2020/2021	2019/2020
		Kshs	Kshs
a) Current account			
Kenya Commercial bank			
1. Operation account	1258591545	33,783,891	0.00
2. Interest account	1281337595	180,320.00	0.00
3. loan repayment	1258591944	37,165,969	0.00
Total		71,130,180	0.00

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Receivables from exchange transactions

Description	2020/2021	2019/2020
	Kshs	Kshs
Current Receivables		
Interest receivable	419,681.00	0.00
Current loan repayments due	10,506,312.00	0.00
Other exchange debtors	0.00	0.00
Less: impairment allowance	0.00	0.00
Total Current receivables	10,925,993.00	0.00
Non-Current receivables	0.00	0.00
Long term loan repayments due	5,829,739.00	0.00
Total Non- current receivables	0.00	0.00
Total receivables from exchange transactions	16,755,732.00	0.00

Additional disclosure on interest receivable

Description	2020/2021	2019/2020
	Kshs	Kshs
Interest receivable		
Interest receivable from current portion of long-term loans of previous years	0.00	0.00
Accrued interest receivable from of long-term loans of previous years	0.00	0.00
Interest receivable from current portion of long-term loans issued in the current year	0.00	0.00
Current loan repayments due		
Current portion of long-term loans from previous years	0.00	0.00
Accrued principal from long-terms loans from previous periods	0.00	0.00
Current portion of long-term loans issued in the current year	0.00	0.00

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Receivables from Non-Exchange transaction

Description	2020/2021	2019/2020
	Kshs	Kshs
Transfer from County Executive	0.00	0.00
Transfer from County Assembly of Kakamega	19,320,000	0.00
Total receivables from non-exchange transactions	19,320,000	0.00

The County assembly of Kakamega through the County treasury borrowed amount of Kshs 96.6M from the fund, it has refunded Kshs 77,280,000 as at June 2021 remaining with a balance of Kshs 19.32M.

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13. Prepayments

Description	2020/2021	2019/2020
	Kshs	Kshs
Prepaid rent	0.00	0.00
Prepaid insurance	0.00	0.00
Prepaid electricity costs	0.00	0.00
Other prepayments(specify)	0.00	0.00
Total	0.00	0.00

No prepayments made in the period.

14. Inventories

Description	2020/2021	2019/2020
	Kshs	Kshs
Consumable stores	0.00	0.00
Spare parts and meters	0.00	0.00
Catering	0.00	0.00
Other inventories(specify)	0.00	0.00
Total inventories at the lower of cost and net realizable value	0.00	0.00

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Property, plant and equipment

	Land and Buildings	Motor vehicles	Furniture and fittings	Computers and office equipment	Total
Cost	Kshs	Kshs	Kshs	Kshs	Kshs
At 1st July 2019	0.00	0.00	0.00	0.00	0.00
Additions	0.00	0.00	644,500.00	0.00	644,500.00
Disposals	0.00	0.00	0.00	0.00	0.00
Transfers/adjustments	0.00	0.00	0.00	0.00	0.00
At 30th June 2020	0.00	0.00	644,500.00	0.00	644,500.00
At 1st July 2020	0.00	0.00	644,500.00	0.00	644,500.00
Additions	0.00	0.00	396,720.00	0.00	396,720.00
Disposals	0.00	0.00	0.00	0.00	0.00
Transfer/adjustments	0.00	0.00	0.00	0.00	0.00
At 30th June 2021	0.00	0.00	1,041,220.00	0.00	1,041,220.00
Depreciation and impairment	0.00	0.00	0.00	0.00	0.00
At 1 st July 2019	0.00	0.00	0.00	0.00	0.00
Depreciation	0.00	0.00	80,563.00	0.00	80,563.00R
Impairment	0.00	0.00	0.00	0.00	0.00
At 30th June 2020	0.00	0.00	80,563.00	0.00	80,563.00
At 1st July 2020	0.00	0.00	80,563.00	0.00	80,563.00
Depreciation	0.00	0.00	74,625.00	0.00	74,625.00
Disposals	0.00	0.00	0.00	0.00	0.00
Impairment	0.00	0.00	0.00	0.00	0.00
Transfer/adjustment	0.00	0.00	0.00	0.00	0.00

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	Land and Buildings	Motor vehicles	Furniture and fittings	Computers and office equipment	Total
Cost	Kshs	Kshs	Kshs	Kshs	Kshs
At 30 th June 2021	0.00	0.00	155,187.00	0.00	155,187.00
Net book values	0.00	0.00	0.00	0.00	0.00
At 30 th June 2020	0.00	0.00	563,937.00	0.00	563,937.00R
At 30 th June 2021	0.00	0.00	886,033.00	0.00	886,033.00

R-Restatement of the figure for 2019/2020

The depreciation of plant and machinery under furniture and fittings has been applied at a rate of 12.5% using reducing balance method

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Intangible assets-software

Description	2020/2021	2019/2020
	Kshs	Kshs
Cost	0.00	0.00
At beginning of the year	0.00	0.00
Additions	0.00	0.00
At end of the year	0.00	0.00
Amortization and impairment	0.00	0.00
At beginning of the year	0.00	0.00
Amortization	0.00	0.00
At end of the year	0.00	0.00
Impairment loss	0.00	0.00
At end of the year	0.00	0.00
NBV	0.00	0.00

17. Trade and other payables from exchange transactions

Description	2020/2021	2019/2020
	Kshs	Kshs
Trade payables	0.00	0.00
Refundable deposits	0.00	0.00
Accrued expenses	0.00	0.00
Other payables	0.00	0.00
Total trade and other payables	0.00	0.00

18. Provisions

Description	Leave provision	Bonus provision	Other provision	Total
	Kshs	Kshs	Kshs	Kshs
Balance at the beginning of the year(1.07.2020)	0.00	0.00	0.00	0.00
Additional Provisions	0.00	0.00	0.00	0.00
Provision utilised	0.00	0.00	0.00	0.00
Change due to discount and time value for money	0.00	0.00	0.00	0.00
Transfers from non -current provisions	0.00	0.00	0.00	0.00
Balance at the end of the year (30.06.2021)	0.00	0.00	0.00	0.00

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19. Borrowings

Description	2020/2021	2019/2020
	Kshs	Kshs
Balance at beginning of the period	0.00	0.00
External borrowings during the year	0.00	0.00
Domestic borrowings during the year	0.00	0.00
Repayments of external borrowings during the period	0.00	0.00
Repayments of domestic borrowings during the period	0.00	0.00
Balance at end of the period	0.00	0.00

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

Description	2020/2021	2019/2020
	Kshs	Kshs
External Borrowings		
Dollar denominated loan	0.00	0.00
Sterling Pound denominated loan	0.00	0.00
Euro denominated loan	0.00	0.00
Domestic Borrowings		
Kenya Shilling loan from KCB	0.00	0.00
Kenya Shilling loan from Barclays Bank	0.00	0.00
Kenya Shilling loan from Consolidated Bank	0.00	0.00
Borrowings from other government institutions	0.00	0.00
Total balance at end of the year	0.00	0.00

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

Description	2020/2021	2019/2020
	Kshs	Kshs
Short term borrowings(current portion)	0.00	0.00
Long term borrowings	0.00	0.00
Total	0.00	0.00

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Employee benefit obligations

Description	Defined benefit plan	Post-employment medical benefits	Other Provisions	Total
	Kshs	Kshs	Kshs	Kshs
Current benefit obligation	0.00	0.00	0.00	0.00
Non-current benefit obligation	0.00	0.00	0.00	0.00
Total employee benefits obligation	0.00	0.00	0.00	0.00

21. Cash generated from operations

	2020/2021	2019/2020
	Kshs	Kshs
Surplus/ (deficit) for the year before tax		
Adjusted for:		
Depreciation	0.00	0.00
Amortisation	0.00	0.00
Gains/ losses on disposal of assets	0.00	0.00
Interest income	0.00	0.00
Finance cost	0.00	0.00
Working Capital adjustments	0.00	0.00
Increase in inventory	0.00	0.00
Increase in receivables	0.00	0.00
Increase in payables	0.00	0.00
Net cash flow from operating activities	0.00	0.00

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- **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 Kakamega County Government;
- b) The Kakamega County Government Ministry;
- c) Kakamega County Assembly;
- d) Key management;
- e) Board of Trustees

b) Related party transactions

	2020/2021 Kshs	2019/2020 Kshs
Transfers from related parties'	73,000,000.00	42,500,000.00
Transfers to related parties	0.00	0.00

c) Key management remuneration

	2020/2021 Kshs	2019/2020 Kshs
Board of Trustees	0.00	0.00
Key Management Compensation	0.00	0.00
Total	0.00	0.00

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d) Due from related parties

	2020/2021	2019/2020
	Kshs	Kshs
Due from parent Ministry	0.00	0.00
Due from County Government	0.00	0.00
Due from County Assembly	19,320,000	0.00
Total	19,320,000	0.00

e) Due to related parties

	2020/2021	2019/2020
	Kshs	Kshs
Due to parent Ministry	0.00	0.00
Due to County Government	0.00	0.00
Due to Key management personnel	0.00	0.00
Due to County Assembly	0.00	0.00
Total	0.00	0.00

• Contingent assets and contingent liabilities

Contingent liabilities	2020/2021	2019/2020
	Kshs	Kshs
Court case against the Fund	0.00	0.00
Bank guarantees	0.00	0.00
Total	0.00	0.00

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15. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Basis for Qualified Opinion</p> <p>1.0 Presentation of the Financial Statements</p> <p>The financial statements are incomplete and lack important information for the intended users as they do not have the corporate governance statement, management discussion and analysis report and the environmental and sustainability report. In addition, significant accounting policy No. 2(c) relating to early adoption of new standards is not clear.</p> <p>Further, the statement of financial performance reflects transfers from the County Government amount of Kshs. 42,500,000 to the Corporation during the year under review as the initial capital</p>	<p>The issues raised have been rectified in the financial statements of the financial year 2020-2021.</p> <p>The amount of Kshs 42.5M was initially reported as revenues but</p>	<p>Not Resolved</p>	<p>By June, 2022</p>

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
	<p>contribution. However, the entire amount of Kshs. 42,500,000 was recognised as revenue which means the entire amount was for operational expenses of the corporation and nothing was available for lending in accordance with the mandate of the corporation. Under the accrual basis of accounting, revenue earned by the Corporation should have been in the form of interest earned from loans advanced to micro, small and medium enterprises within Kakamega County or interest earned on the balance held in the bank. In addition, the statement of financial performance for the year ended 30 June, 2020 reflects a surplus of Kshs. 41,489,892 which was however not as a result of the activities of the Corporation.</p> <p>Consequently, the financial statements do not provide accurate information about the sources, allocation and uses of financial resources; and have not complied with the format prescribed by the International Public Sector Accounting Standards (Accrual Basis) and the Public Sector Accounting Standards Board (PSASB).</p>	<p>in the subsequent year of FY 2020-2021 it has been properly reported as capital contribution in a revolving fund</p> <p>The correct format applied by International Public Sector Accounting Standards (Accrual Basis) and the Public Sector Accounting Standards Board (PSASB have</p>		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		been applied well in the financial statements of FY 2020-2021		
	<p>2.0 Lack of an Approved Budget During the year under review, the Corporation operated without an approved budget contrary to Regulation 205(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that the County Executive Committee Member responsible for the county corporation shall approve the estimates of budget of the county corporation and shall, not later than end of January every year, submit to the County Treasury for approval of those estimates for the following financial year and that the Budget estimates submitted shall be classified as, compensation of employees, use of goods and services, transfers to other levels of government and capital.</p>	<p>The anomaly has been corrected in the FY 2020-2021 and going forward the management is preparing the budget timely and as per the required guidelines and templates approved by the National treasury</p>	<p>Not Resolved</p>	<p>By June, 2022</p>

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
	<p>In addition, the budget document presented to the Board of Directors for approval did not determine the financial and economic policies and priorities in the medium term as required. The estimates were also not prepared in the form of a budget policy statement of the entity's revenues and expenditures and in line with the County's fiscal strategy paper. Further, the budget proposal presented for approval did not indicate/differentiate capital expenditure from revenue expenditure.</p> <p>Consequently, the Management is in breach of the Law. Further, the basis under which the Corporation received and expended the funds from the County Government could not be confirmed.</p>			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>Resolved / Not Resolved</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
	<p>Other Matters</p> <p>Budgetary Control and Performance</p> <p>The statement of comparison of budget and actual amounts reflects a final expenditure budget of Kshs. 42,500,000 as compared to actual expenditure of Kshs. 1,010,108 thereby resulting to an under performance of Kshs. 41,489,892 or approximately 98% of the budget including non-disbursement of loans budgeted at Kshs. 25,245,000.</p> <p>Consequently, the objective of the corporation of disbursing loans to the micro, small and medium enterprises was not achieved.</p>	<p>Due to the outbreak of COVID 19 the operations of the fund were adversely affected and it was not possible to proceed with loaning as expected, but going forward we have put mechanisms in place for improvement.</p>	<p>Not Resolved</p>	<p>By June, 2022</p>


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16. APPENDIX I: INTER-ENTITY TRANSFERS

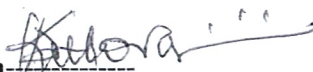
ENTITY NAME:				
Break down of Transfers from the County Executive of Kakamega County Government				
FY 2020/2021				
a.	Recurrent Grants	<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>
		13/04/2021	9,000,000.00	FY 2020/2021
		Total	9,000,000.00	
b.	Development Grants	<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>
		13/04/2021	10,320,000	FY 2020/2021
		13/05/2021	10,120,000	FY 2020/2021
		04/06/2021	19,320,000	FY 2020/2021
		30/06/2021	24,240,000	FY 2020/2021
		Total	64,000,000.00	
c.	Direct Payments	<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>FY to which the amounts relate</u>
			0.00	
		Total	0.00	

The above amounts have been communicated to and reconciled with the parent Ministry.

Finance Manager
Kakamega County Microfinance Corporation

Sign 

Head of County Treasury at
County Government of Kakamega

Sign 



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