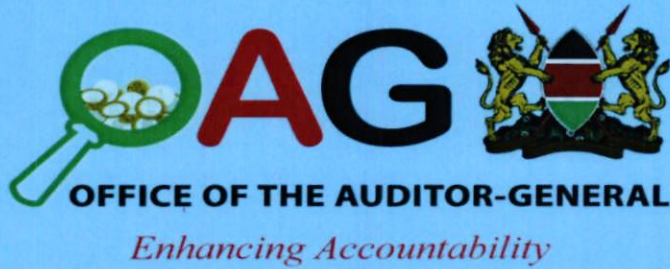


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# REPORT

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TABLED BY	
COMMITTEE	
CLERK OF THE TABLE	

## THE AUDITOR-GENERAL

### ON

# BUNGOMA COUNTY ASSEMBLY - EMPLOYEE CAR LOAN AND MORTGAGE FUND

	PAPERS LAID
DATE	10/11/2021
TABLED BY	SMZ
COMMITTEE	
CLERK OF THE TABLE	Donna

## FOR THE YEAR ENDED 30 JUNE, 2019

OFFICE OF THE AUDITOR-GENERAL  
P. O. Box 2105-50200 BUNGOMA

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OFFICE OF THE AUDITOR-GENERAL  
P. O. Box 2105-50200 BUNGOMA

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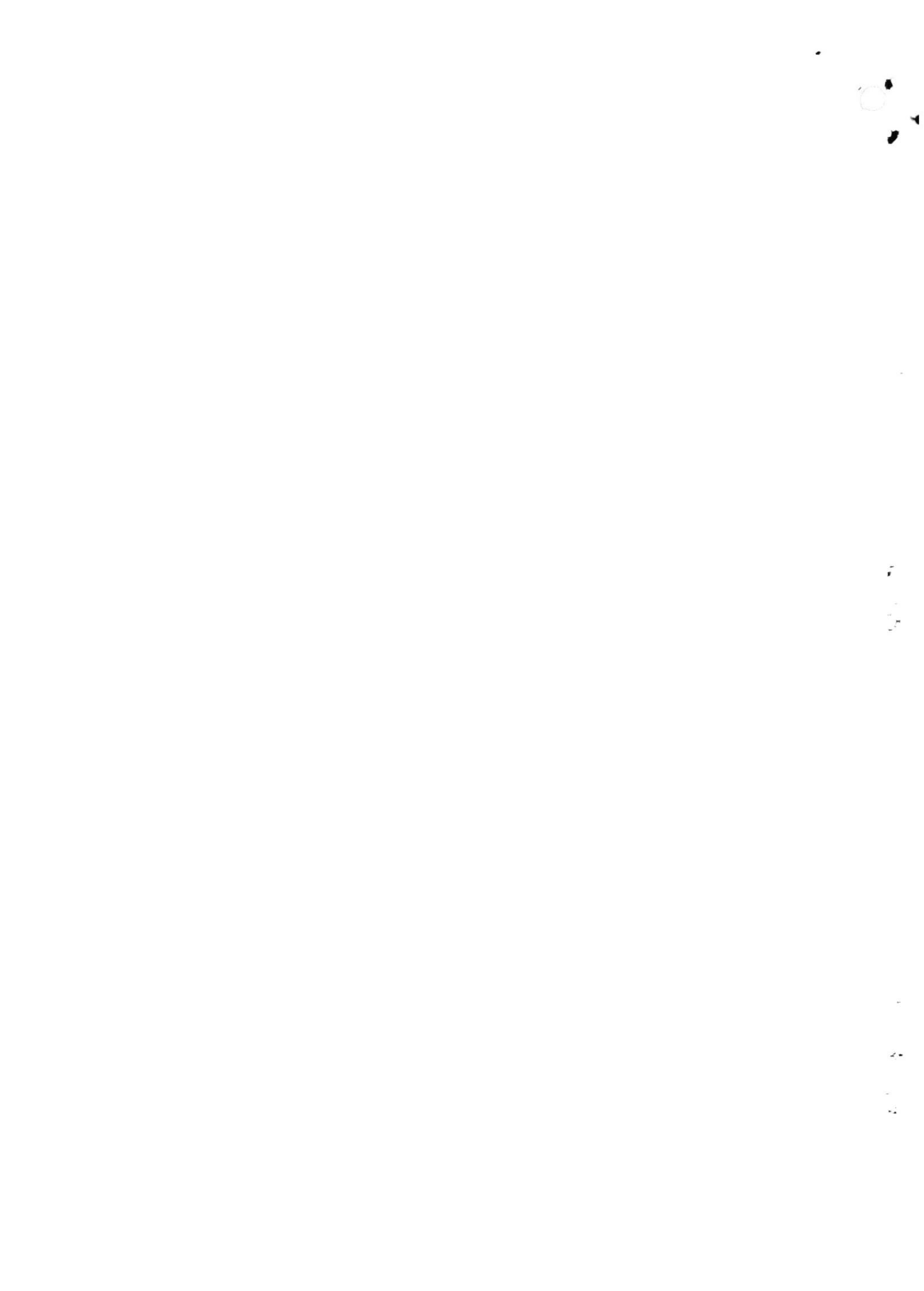
**BUNGOMA COUNTY ASSEMBLY – EMPLOYEE CAR LOAN AND MORTGAGE  
FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2019**

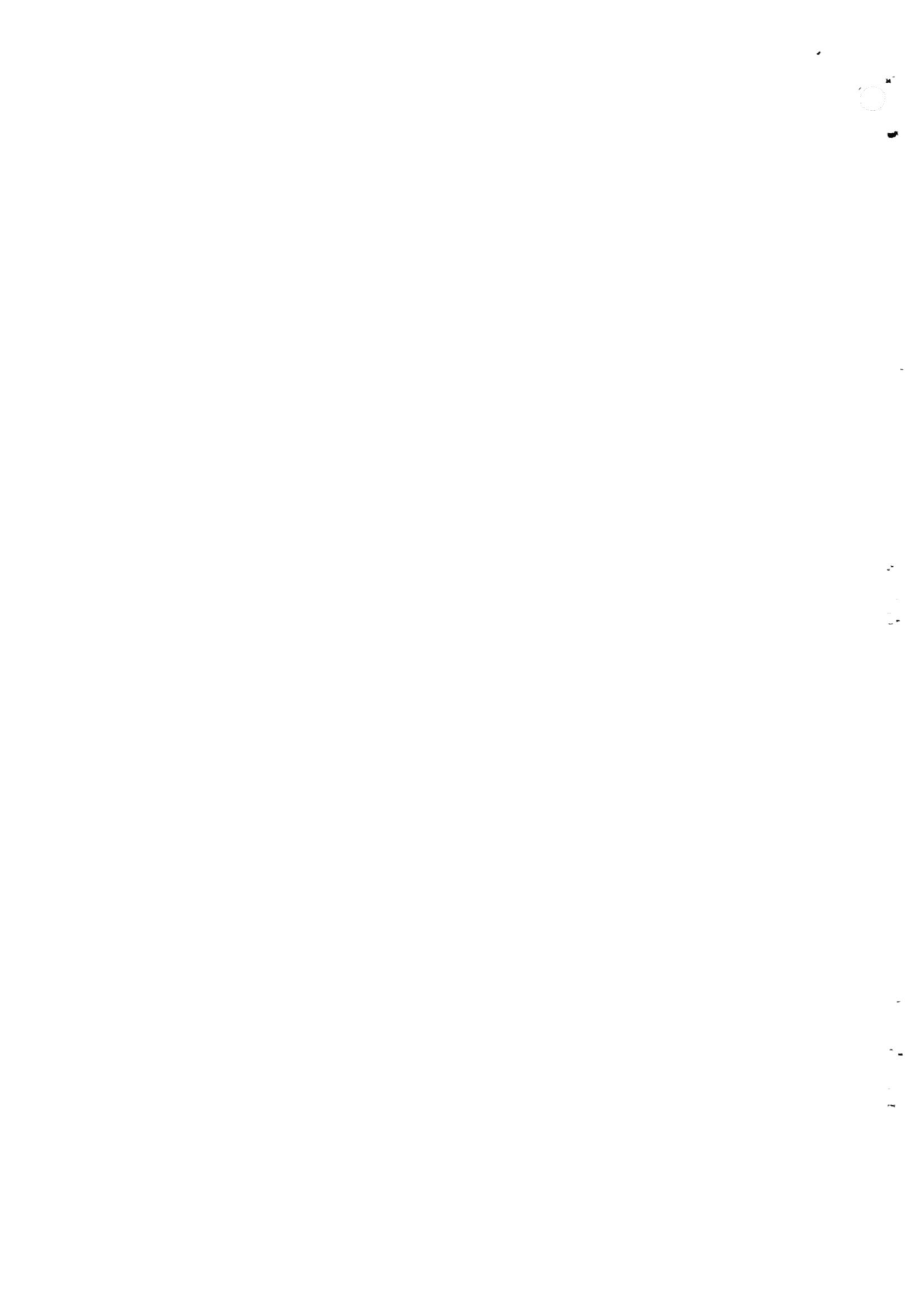
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**Prepared in accordance with the Accrual Basis of Accounting Method under the  
International Public Sector Accounting Standards (IPSAS)**



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**1. KEY ENTITY INFORMATION AND MANAGEMENT**

**a) Background information**

Bungoma County Assembly Employees’ Car Loan and Mortgage Fund is established by and derives its authority and accountability from The Bungoma County Assembly (Employees’ Car Loan Scheme Fund) Regulations, 2017 on 16<sup>th</sup> January 2017 and The Public Finance Management (Bungoma County Assembly) (Employees’ Mortgage Scheme Fund) Regulations, 2018 on 19<sup>th</sup> April 2018. The Fund is wholly owned by the County Assembly of Bungoma and is domiciled in Kenya.

The fund’s objective is to;

- a) Provide a loan scheme for the purchase of vehicles and purchase, development, renovation or repair of residential houses to members of the scheme
- b) Raise funds for the implementation of the objectives contemplated in (a) above

**b) Fund Administration Committee**

Ref	Name	Position
1	Hon Francis Chemion	Chairman
2	Michael Muthui Kimwele	Vice Chair
3	John Ongwae Mosongo	Fund Administrator
4	Francis Simiyu Tome	Member
5	Ignatius Wangila	Member
6	Ann Nang’oni Wekesa	Member
7	Julia Naliaka Lunani	Member

**c) Key Management**

Ref	Name	Position
1	John Ongwae Mosongo	Accounting Officer
2	Julia Naliaka Lunani	Senior Accounts Officer
3	Charles Wanjala Wafula	Accountant
4	Ann Nang’oni Wekesa	Human Resource Manager

**d) Registered Offices**

P.O. Box 1886 - 50200  
County Assembly of Bungoma Offices  
Moi Street  
Bungoma, KENYA

**e) Fund Contacts**

Telephone: (254) 722585582  
E-mail: [info@bungomaassembly.go.ke](mailto:info@bungomaassembly.go.ke)  
Website: [www.bungomaassembly.go.ke](http://www.bungomaassembly.go.ke)

**f) Fund Bankers**

1. Central Bank of Kenya  
Haile Selassie Avenue  
P.O. Box 60000  
City Square 00200  
Nairobi, Kenya
2. Kenya Commercial Bank  
Bungoma Branch  
P.O. BOX 201-50200  
Bungoma, KENYA

**g) Independent Auditors**

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

**h) Principal Legal Adviser**

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

**2. FUND ADMINISTRATION COMMITTEE AND MANAGEMENT TEAM**



Hon Francis Chemion  
**FUND CHAIRMAN**



Michael Muthui Kimwele  
**VICE CHAIR**



John Ongwae Mosongo  
**FUND ADMINISTRATOR**



Francis Simiyu Tome  
**MEMBER**



Ignatius Wangila  
**MEMBER**



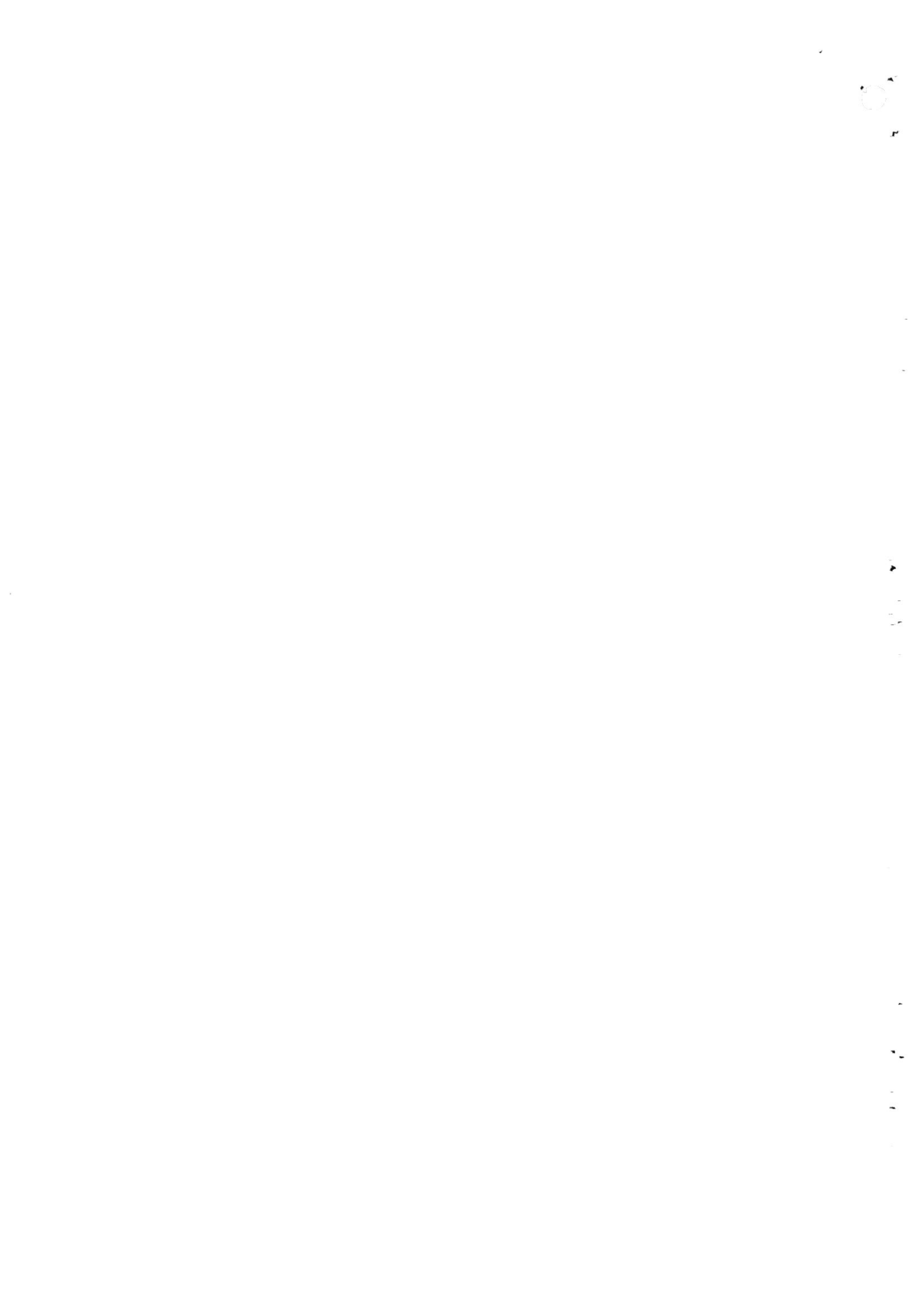
AnnNang'oni Wekesa  
**MEMBER**



Julia Naliaka Lunani  
**MEMBER**



Charles Wanjala Wafula  
**FUND ACCOUNTANT**



**FUND ADMINISTRATION COMMITTEE AND MANAGEMENT TEAM (Continued)**

**Hon Francis Chemion – Fund Chairman**

He was elected MCA Kaptama Ward in August 2017 and the leader of Minority in October 2017 and a member to the County Assembly Service Board.

**Michael Kimwele – Vice Chair**

He is employed as Deputy Clerk to County Assembly of Bungoma since 2013. He holds a master of Business Administration from Maseno University. He is a certified Human Resource Practitioner and a member of the Institute of Human Resource Management and Kenya Institute of Management. He previously worked with the defunct Local Authority in various in various capacities.

**John Ongwae Mosongo –Clerk to County Assembly of Bungoma**

Mr Mosongo was seconded by the transition Authority as the Clerk to the Assembly on February 2013. He was later recruited through a competitive process as the Clerk to County Assembly of Bungoma and Secretary to the County Assembly Board on 12<sup>th</sup> January 2014. He is the CEO and the adviser to the Speaker.

Mr Mosongo holds a Bachelor of Arts Degree from University of Nairobi. He has undertaken a Senior Management Course and Strategic Leadership Course offered by the Kenya School of Government. Mr Mosongo is a member of the Labour relations at the Society of Clerks at the Table (SOCATT).

**Francis Tome – Member**

He is employed as a Principal Clerk Assistant at County Assembly of Bungoma. He holds Masters of Arts in communication and media studies from University of Nairobi. He previously worked as a lecturer at Bushangala Technical Training Institute under Teachers Service Commission. He was also a part time lecturer in Communication and Media studies at Mt Kenya University.

**Ignatius Wangila- Member**

He is currently employed by the County Assembly Service Board as the Principal Legal Counsel. He holds a Bachelor of Law from Kampala International University with a post graduate Diploma from the Kenya School of Law. He previously worked as prosecution counsel with the directorate of Public Prosecutions. He also worked with the following Law firms MS J.O. Makali & Co. Advocate – Litigation Counsel, MS Wanyama Wanyonyi Co. Advocate – Associate. He is a member of the Law Society of Kenya.

**Anne Nang’oni Wekesa – Member**

She is employed at the County Assembly of Bungoma as Senior Human Resource Officer, She holds a Bachelor in Business Management (HRM) from Moi University, Higher National Diploma in HRM and Senior Management Course at the Kenya School of Government. She

*Bungoma County Assembly – Employee Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2019*

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previously worked with the defunct Local Authorities. She is a member of the Institute of Human Resource Management.

**Julia Naliaka Lunani – Member**

She is currently employed at the County Assembly as Senior Accounts Controller in 2014. She holds a Masters of Business Administration (Finance) from Kabarak University and a Certified Public Accountant Part I. She previously worked as Finance and Administration Officer at the Centre for Human Rights and Democracy.

**Charles Wanjala Wafula- Fund Accountant**

He works in the Finance and Accounts department as Accountant I and seconded to the Fund in June 2018. He holds a bachelor in Commerce (Accounting) from KCA University with a Diploma in Accounts and CPA Part I. He has also had training at Kenya School of Government Senior Management Course and Strategic Leadership and Development Program.



### **3. FUND CHAIRPERSON'S REPORT**

It is my pleasure to present the County Assembly of Bungoma Employee Car Loan and Mortgage fund financial statements for the year ended 30<sup>th</sup> June 2019. The financial statements present the financial performance of the fund over the past year.

#### **Sustainability**

The fund and its stakeholders are increasingly emphasizing on the need to ensure sustainability for both its investments and its resource mobilization and financing capabilities with an objective of ensuring that the fund's going concern is secured.

#### **Review of performance**

##### **Income**

The fund earned revenues amounting to Kshs. 15,000,000 from the exchequer. The income from interest income amounted to Kshs 1,956,545

##### **Expenditures**

The total expenditures during the period amounted to Kshs. 526,868 meant to undertake fund administration expenses with regard to transfer of logbooks to be conjoined (between the County Assembly and the member of the scheme), hospitality related activities and bank charges.

##### **Appreciation**

I take this opportunity to express my sincere gratitude and appreciation to the county government, development partners, stakeholders, management, staff and fellow trustees for their continued support which made us achieve these results.

I look forward to your continued support in the year 2019/2020.

Signed: \_\_\_\_\_  


**Hon. Francis Chemion  
Fund Administration Chairman**

*Bungoma County Assembly – Employee Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2019*

**4. REPORT OF THE FUND ADMINISTRATOR**

It is my pleasure to present the County Assembly of Bungoma Employee car loan and mortgage financial statements for the year ended 30<sup>th</sup> June 2019. The financial statements present the financial performance of the fund over the past year.

The fund was established on February 2017 and started with an initial amount of Kshs 80M in the financial year 2017/2018. Under the financial year under review the fund has disbursed loans to 10 additional beneficiaries.

**Financial Performance**

**a) Revenue**

Revenue received from the Transfers from County Treasury amounted to Kshs 15,000,000 with an Interest Income of Ksh 1,956,545 for the period under review.

Revenue classification	Actual (Kshs)
Revenue	Kshs
Transfers from County Govt.	15,000,000
Interest income	1,956,545
<b>Total income</b>	<b>16,956,545</b>

**b) Loans**

During the financial year 2018/2019, the fund disbursed Car loan and mortgage of Kshs.21,100,000 bringing the total loan beneficiaries to date to Kshs.95,132,000.

**c) Cash flows**

In the FY 2018/2019, we have not had many liquidity disruptions. The cash and cash equivalents was Kshs 869,186 as at 30<sup>th</sup> June 2019.

**d) Conclusion**

FY 2018/2019 was a good year in general. I take this opportunity to thank the board of trustees for their support. I would also want to thank all staff who we have worked hand in hand to ensure that County Assembly of Bungoma Employee Car Loan and Mortgage achieves its mission.

Signed: \_\_\_\_\_

**JOHN ONGWAE MOSONGO  
FUND ADMINISTRATOR**

## 5. CORPORATE GOVERNANCE STATEMENT

### THE FUND

The county assembly of Bungoma Employee Car Loan and Mortgage scheme is a revolving fund established pursuant to the Salaries and Remuneration Commission (SRC) circular number SRC/ADM/CIR/1/13 Vol. III (128) of 17<sup>th</sup> December, 2014 and Section 167 of the Public Finance Management (PFM) Act 2012. Its mandate is to provide car loans and mortgage to members of staff. The fund is committed to ensuring compliance with regulatory and supervisory corporate governance requirements. Essential to the establishment of a corporate governance framework in the fund is a formal governance structure with the fund administration committee at its apex. The roles and functionality of the fund are drawn from the Bungoma County Assembly (Employees' Car Loan Scheme Fund) regulations, 2017 made on 16<sup>th</sup> January, 2017 and The Public Finance Management (Bungoma County Assembly) (Employees' Mortgage Scheme Fund) Regulations, 2018 on 19<sup>th</sup> April 2018.

### AUDIT AND RISK COMMITTEE

In ensuring that corporate governance and integrity is enhanced in between the governance of the fund, the Fund Administration Committee engages an audit and risk committee established by County Assembly Service Board. The members of this committee during the year under review were:

S/No.	Name	Position in committee
1	Mr. Calistus Wekesa Waswa	Chairman Audit committee
2	Dr. Destaings N. Nyongesa	Member Audit committee
3	CPA Jackson Wetosi	Member Audit committee
4	Mrs. Diana Khaemba	Member Audit committee
5	Mr. Alfred Makokha	Secretary Audit committee

### STATEMENT OF COMPLIANCE

The Fund Administration Committee confirms that the fund has throughout the FY2018/2019 complied with all statutory and regulatory requirements and that the fund has been managed in accordance with the principles of good corporate governance.

The fringe benefit tax is expected to be paid by the employer (County Assembly Service Board).

### INTERNAL CONTROL AND RISK MANAGEMENT

#### Internal Control

The Fund Administration Committee is responsible for reviewing the effectiveness of the fund's system of internal control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and

the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

**Internal Control Framework**

The fund continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an on-going basis. No significant failings or weaknesses were identified during the FY 2018/2019.

**Management Team**

The management team headed by the Fund Administrator implements the Loans Management Committee decisions and policies through committee meetings. The team meets regularly to ensure that the Committee's objectives are achieved effectively and efficiently.

**Auditor**

The fund is audited by the Auditor-General.

## **6. MANAGEMENT DISCUSSION AND ANALYSIS**

The fund has continues to grow and the management has put measures in place to safeguard against risks.

The fund's activities expose it to a variety of financial risks including credit and liquidity risks. 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 members with an established credit history.

The management has ensured that we comply with statutory requirements relating to the functions of the fund and seeks to make sure that statutory deductions are remitted on time to avoid incurring penalties and interests for non-compliance.

### **BUSINESS PERFORMANCE**

#### **Revenue**

Revenue received from the Transfers from County Treasury amounted to Kshs 15,000,000 with an Interest Income of Ksh 1,956,545 for the period under review.

#### **Cash flows**

In the FY 2018/2019, we have not had many liquidity disruptions. The cash and cash equivalents was KShs 869,186 as at 30<sup>th</sup> June 2019.

### **OPERATIONAL PERFORMANCE**

The fund's core operating activity has been the offering car loans and mortgage to members of staff. The county government has supported the fund and has made provisions to increase the allocation of the fund.

## 7. 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 Bungoma County Assembly (Employees' Car Loan Scheme Fund) regulations, 2017 made on 16<sup>th</sup> January, 2017 and The Public Finance Management (Bungoma County Assembly) (Employees' Mortgage Scheme Fund) Regulations, 2018 on 19<sup>th</sup> April 2018 shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

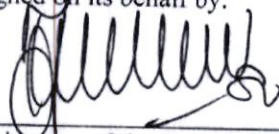
The Administrator of the County Public Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2019. This responsibility includes: (i) 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 Bungoma County Assembly (Employees' Car Loan Scheme Fund) regulations, 2017 made on 16<sup>th</sup> January, 2017 and The Public Finance Management (Bungoma County Assembly) (Employees' Mortgage Scheme Fund) Regulations, 2018 on 19<sup>th</sup> April 2018. The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2019, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

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

### **Approval of the financial statements**

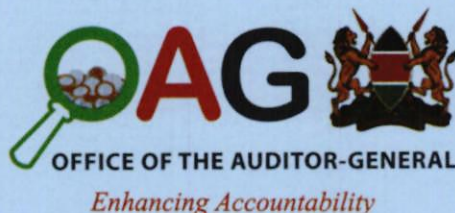
The Fund's financial statements were approved by the Board on \_\_\_\_\_ 2019 and signed on its behalf by:



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

# REPUBLIC OF KENYA

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

## **REPORT OF THE AUDITOR-GENERAL ON BUNGOMA COUNTY ASSEMBLY-EMPLOYEE CAR LOAN AND MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2019**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Bungoma County Assembly-Employee Car Loan and Mortgage Fund set out on pages 1 to 27, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of financial position, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Bungoma County Assembly – Employee Car Loan and Mortgage Fund as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Financial Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **1. Accuracy of the Financial Statements**

The statement of financial performance reflects total expenses balance of Kshs.526,868. However, the statement of comparison of budget and actual amounts reflects Kshs.355,008 on total expenditure resulting to a variance of Kshs.171,860 which relates to fund administration expenses. Further, the same statement indicates that the Notes to the financial statements are set out on pages 27 to 32 instead of pages 1 to 27.

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

## **2. Cash and Cash Equivalents**

As disclosed in Note 4 to the financial statements, the statements of financial position reflects, a bank balance of Kshs.869,186 as at 30 June, 2019. However, review of the bank reconciliation statements revealed that the Management used the bank certificate balance instead of the reconciled cash book balances of Kshs.2,742,872, resulting into unreconciled variance of Kshs.1,873,686.

In the circumstances, the cash and cash equivalent balance of Kshs.869,186 as at 30 June, 2019 is fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Bungoma County Assembly - Employee Car Loan and Mortgage Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 are no key audit matters to communicate in my 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 procedures performed, except for the matters described in the Conclusion on Compliance and Effectiveness section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Car and Mortgage Scheme**

##### **1.1 Lack of Security on Mortgage and Car Loans Disbursed to Staff**

As disclosed in Note 5B to the financial statements, the total non-current receivables balance of Kshs.79,517,350 includes Kshs.72,482,372 in respect of outstanding mortgage and car loan balance as at 30 June, 2019. However, it was noted that the acquired properties were not charged contrary to Regulation 16(1) of the Bungoma County Assembly (Employees' Mortgage Scheme Fund) Regulations, 2018 which stipulates that the Committee shall have a charge registered on the property financed through a loan granted and shall be entitled to have its name entered in all documents of title for such property.

Further, there was no evidence that the borrowers had taken out an insurance cover on the mortgage protection policy and a fire policy with a reputable insurance firm as per Regulation (17) of Bungoma County Assembly (Employees' Mortgage Scheme Fund) Regulations, 2018.

Further, it was noted that the logbooks were not registered on joint ownership with the County Assembly contrary to Regulation 8(2) of the Bungoma County Assembly (Employees' Car Loans Scheme Fund) Regulations, 2017 which states that the log-book of a vehicle subject to a loan from the Fund shall be issued jointly between the County Assembly and the member of the Scheme and should be kept in the custody of the officer administering the Fund until the loan is repaid in full by the member of the Scheme. In addition, there was no evidence that the vehicles purchased through the Scheme were comprehensively insured as per Section 12(1) of the same Regulations.

## **1.2 Irregular Advances of Mortgage Loans**

As disclosed in Note 5B to the financial statements, the statement of financial position reflects Kshs.79,517,350 on long term receivables from exchange transactions which includes Kshs.21,100,000 on loan disbursements paid out. However, included in the Kshs.21,100,000 is Kshs. 19,700,000 whose applications for the advanced mortgages were not supported with the following documents as prescribed by Regulation 10(1) of the Bungoma County Assembly (Employees' Mortgage Scheme Fund) Regulations, 2018;

- i) Copies of the designs of the proposed residential property duly approved by relevant Government agency;
- ii) Bills of quantities in respect of the proposed development, renovation or repair.
- iii) An official search of the title to the property intended to be purchased;
- iv) A certified copy of the sale agreement relating to the property.

In the circumstances, the Fund Management breached the law.

## **2. Lack of an Approved Budget**

Documents provided for audit revealed that the Fund did not have an approved budget contrary to Section 149(2h) of the Public Finance Management Act 2012, which requires the Accounting Officer to prepare estimates of expenditure of the entity in conformity with the strategic plan.

In the circumstances, the Fund Management breached the law.

## **3. Outstanding Borrowings by County Assembly Service Board**

As disclosed in Note 5A to the financial statements, the statement of financial position reflects Kshs.17,402,830 on current portion of long-term receivables from exchange transactions. However, included in the Kshs.17,402,830 is Kshs.17,190,318 in respect of un-refunded borrowings by the County Assembly Service Board contrary to Regulation 4 of both the Public Finance Management (County Assembly Employee Car Loan Scheme Fund) Regulations, 2017 and the Public Finance Management (County

Assembly Employee Mortgage Fund) Regulations, 2018 which states that the object and purpose of the fund is to provide a loan scheme for the purchase of vehicles by staff of the scheme and for the purchase, development, renovation or repair of residential property by staff of the scheme, respectively.

Further, the Management did not provide for audit loan applications, loans management committee approval minutes and loans agreement.

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

#### **4. Failure to Remit Fringe Benefit Tax**

Documents provided for audit revealed that the Fund Management did not remit to Kenya Revenue Authority (KRA) fringe benefit tax amounting to Kshs.720,076 which accrued from the low interest loans extended to its members during the year as tabulated below:

<b>Interest Received @ 3% p.a - Kshs.</b>	<b>KRA Prescribed Rate @ 7% P.A - Kshs.</b>	<b>Taxable Fringe Benefit - Kshs.</b>	<b>FBT @ 30% Kshs.</b>
1,800,194	4,200,446	2,400,252	720,076

The Management of the Fund did not therefore, comply with the Section 12(B)(1) and (3) of the Income Tax Act, 2010 that requires an employer to pay fringe benefit tax in respect of a loan provided to an employee or director at an interest rate lower than the market interest rate and Section 12(3) which requires that fringe benefit tax to be charged on the total taxable value of a fringe benefit provided by an employer in a month and remitted on or before the tenth day of the following month to KRA.

Consequently, the Fund Management breached the law and also exposed the Fund to penalties and interest due to non-compliance with provisions the Income Tax Act.

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 procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis of Conclusion**

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

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

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue 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 Fund or to cease operations.

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

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

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

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

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

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

  
**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**18 October, 2021**

*Bungoma County Assembly – Employee Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2019*

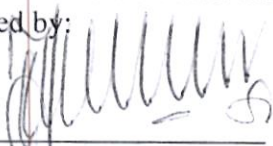
**9. FINANCIAL STATEMENTS**


**9.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2019**

	Note	FY2018/2019 Kshs	FY2017/2018 Kshs
<b>Revenue from exchange transactions</b>			
Interest income	1	1,956,545	1,751,206
<b>Total revenue</b>		<b>1,956,545</b>	<b>1,751,206</b>
<b>Expenses</b>			
Fund Administration Expenses	2	171,860	
General expenses	3	355,008	1,461,972
<b>Total expenses</b>		<b>526,868</b>	<b>1,461,972</b>
<b>Surplus for the period</b>		<b>1,429,677</b>	<b>289,234</b>

The notes set out on pages 27 to 32 form an integral part of these Financial Statements

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 \_\_\_\_\_ 2019 and signed by:

  
\_\_\_\_\_  
Administrator of the Fund  
Name: JOHN ONGWAE MOSONGO

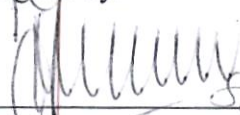
  
\_\_\_\_\_  
Fund Accountant  
Name: CHARLES WAFULA


*Bungoma County Assembly – Employee Car Loan and Mortgage Fund  
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For the year ended June 30, 2019*

**9.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019**

	Note	FY2018/2019 Kshs	FY2017/2018 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	869,186	8,471
Current portion of long term receivables from exchange transactions	5A	17,402,830	7,801,801
<b>Non-current assets</b>			
Long term receivables from exchange transactions	5B	79,517,350	73,390,532
<b>Total assets</b>		<b>97,789,366</b>	<b>81,200,804</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	6	158,885	-
<b>Total liabilities</b>		<b>158,885</b>	<b>-</b>
<b>Net assets</b>			
Revolving Fund		95,911,570	80,911,570
Accumulated surplus		1,718,911	289,234
<b>Total net assets and liabilities</b>		<b>97,789,366</b>	<b>81,200,804</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on \_\_\_\_\_ 2019 and signed by:

  
 \_\_\_\_\_  
 Administrator of the Fund  
 Name: JOHN ONGWAE MOSONGO

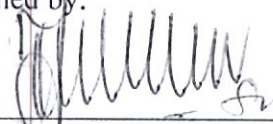
  
 \_\_\_\_\_  
 Fund Accountant  
 Name: CHARLES WAFULA


*Bungoma County Assembly – Employee Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2019*

**9.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2019**

	Revolving Fund	Revaluation Reserve Kshs	Accumulated surplus Kshs	Total Kshs
<b>Balance as at 1 July 2017</b>	-	-	-	-
Surplus/(deficit) for the period	-	-	289,234	289,234
Funds received during the year	80,911,570	-	-	80,911,570
<b>Balance as at 30 June 2018</b>	<b>80,911,570</b>	-	<b>289,234</b>	<b>81,200,804</b>
<b>Balance as at 1 July 2018</b>	<b>80,911,570</b>	-	<b>289,234</b>	<b>81,200,804</b>
Surplus/(deficit) for the period	-	-	1,429,677	1,429,677
Funds received during the year	15,000,000	-	-	15,000,000
<b>Balance as at 30 June 2019</b>	<b>95,911,570</b>	-	<b>1,718,911</b>	<b>97,630,481</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on \_\_\_\_\_ 2019 and signed by:

  
\_\_\_\_\_  
Administrator of the Fund  
Name: JOHN ONGWAE MOSONGO

  
\_\_\_\_\_  
Fund Accountant  
Name: CHARLES WAFULA



*Bungoma County Assembly – Employee Car Loan and Mortgage Fund  
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**9.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019**

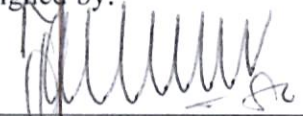
	Note	FY2018/2019 Kshs	FY2017/2018 Kshs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Interest received	1	2,118,751	1,751,206
<b>Total Receipts</b>		<b>2,118,751</b>	<b>1,751,206</b>
<b>Payments</b>			
Fund administration expenses	2	171,860	-
General expenses	3	355,008	1,461,972
<b>Total Payments</b>		<b>526,868</b>	<b>1,461,972</b>
<b>Cash flows from operating activities</b>		<b>1,591,883</b>	<b>289,234</b>
<b>Adjustments;</b>			
Debtors Borrowings	5A	(21,027,300)	(29,949,041)
Debtors Repayments	5A	11,436,276	22,349,747
Interest Receivable	5A	(172,211)	(162,206)
Interest from loan offset	2	(415)	-
Other exchange debtors-MCA'S Car Loan	5A		(40,301)
Other payables-Recoveries not classified	6	158,885	
		<b>(9,604,765)</b>	<b>(7,801,801)</b>
<b>Net Cash flows from operating activities</b>		<b>(8,012,882)</b>	<b>(7,512,567)</b>
<b>Cash flows from investing activities</b>			
Insurance Premium Recovered	5B	357,190	257,832
Proceeds from loan principal repayments	5B	14,616,407	9,493,335
Loan disbursements paid out	5B	(21,100,000)	(74,032,000)
Buying off of loan from MCA's Car loan	5B	-	(1,459,699)
Insurance Premium Paid	5B	-	(7,650,000)
<b>Net cash flows used in investing activities</b>		<b>(6,126,403)</b>	<b>(73,390,532)</b>
<b>Cash flows from financing activities</b>			
Proceeds from revolving fund receipts	7	15,000,000	80,911,570
<b>Net cash flows used in financing activities</b>		<b>15,000,000</b>	<b>80,911,570</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>860,715</b>	<b>8,471</b>

**Bungoma County Assembly – Employee Car Loan and Mortgage Fund  
Reports and Financial Statements  
For the year ended June 30, 2019**

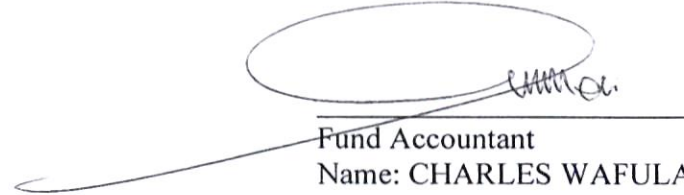
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Cash and cash equivalents at 30 June 2018	4	8,471	
<b>Cash and cash equivalents at 30 June 2019</b>	<b>4</b>	<b>869,186</b>	<b>8,471</b>

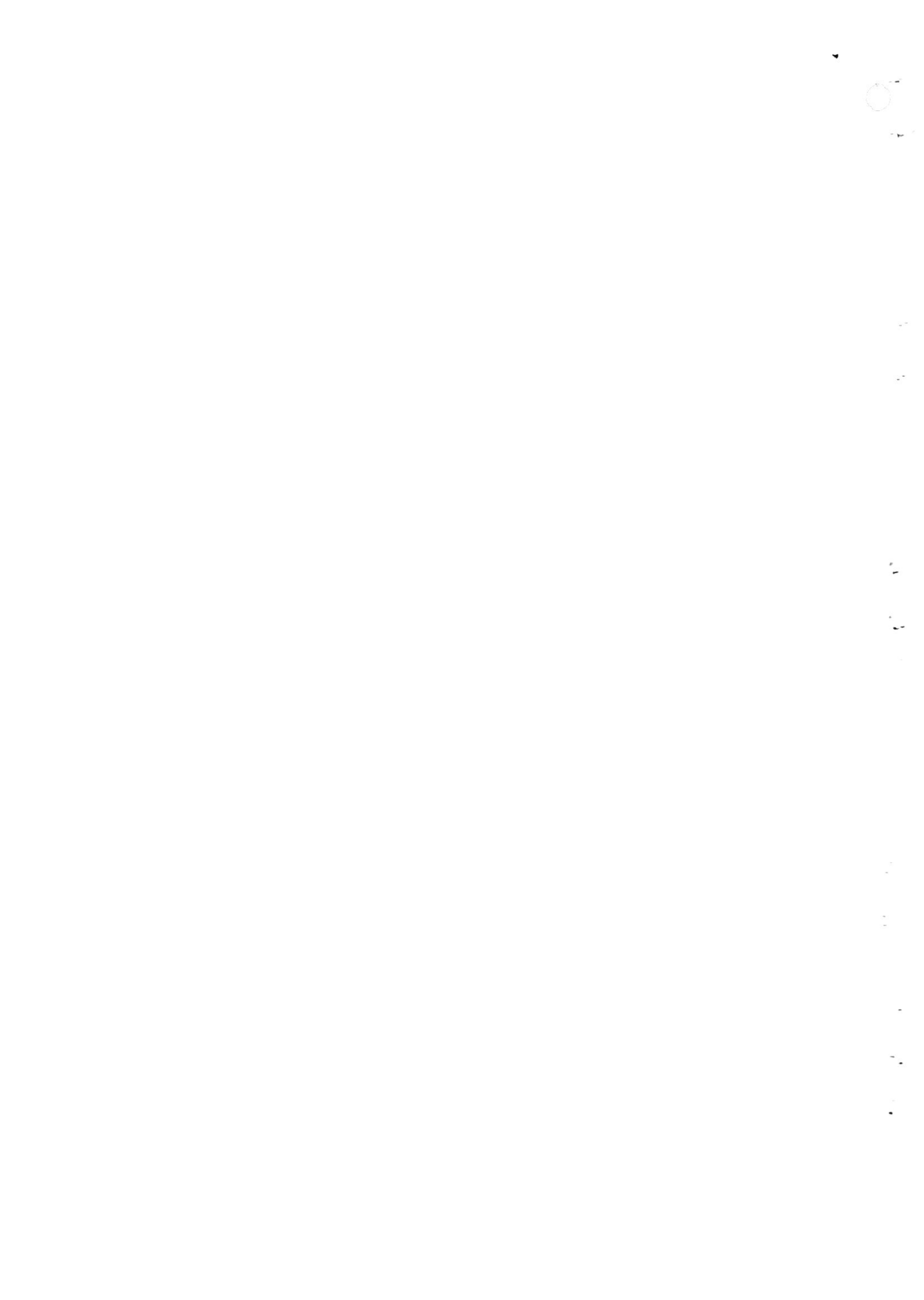
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on \_\_\_\_\_ 2019 and signed by:



\_\_\_\_\_  
Administrator of the Fund  
Name: JOHN ONGWAE MOSONGO



\_\_\_\_\_  
Fund Accountant  
Name: CHARLES WAFULA



**9.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE 2019**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2019	2019	2019	2019	2019	2019
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Interest income	2,295,517	-	2,295,517	1,956,545	338,972	1
<b>Total income</b>	<b>2,295,517</b>	<b>-</b>	<b>2,295,517</b>	<b>1,956,545</b>	<b>338,972</b>	<b>1</b>
<b>Expenses</b>						
General expenses	1,256,000	-	1,256,000	355,008	900,992	0
<b>Total expenditure</b>	<b>1,256,000</b>	<b>-</b>	<b>1,256,000</b>	<b>355,008</b>	<b>900,992</b>	<b>0</b>
<b>Surplus for the period</b>	<b>1,039,517</b>	<b>-</b>	<b>1,039,517</b>	<b>1,601,537</b>	<b>562,020</b>	<b>2</b>

**Budget notes**

1. *Provide explanation of differences between actual and budgeted amounts (10% over/ under) IPSAS 24.14*
2. *Provide an explanation of changes between original and final budget indicating whether the difference is due to reallocations or other causes. (IPSAS 24.29)*
3. *Where the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis, statement of financial performance is accrual) provide a reconciliation.*



## 9.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1. Statement of compliance and basis of preparation

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

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

### 2. Adoption of new and revised standards

#### a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

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

#### b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

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

*Bungoma County Assembly – Employee Car Loan and Mortgage Fund  
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Standard	Effective date and impact:
	<ul style="list-style-type: none"> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity’s risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul>
<p><b>IPSAS 42: Social Benefits</b></p>	<p><b>Applicable: 1<sup>st</sup> January 2022</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity’s financial performance, financial position and cash flows.</p>

**c) Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2019.

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

### **3. Revenue recognition**

#### **i) Revenue from non-exchange transactions**

##### **Transfers from other government entities**

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

#### **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 2018/2019 was approved by the County Assembly on 4<sup>th</sup> July 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded additional appropriations of Ksh 15,000,000 on the FY 2018/2019 budget following the governing body's approval.

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

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section 9.5 of these financial statements.

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

### **5. Financial instruments**

#### *Financial assets*

##### *Initial recognition and measurement*

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

##### *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 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)

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

### ***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.

#### ***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.

### **6. Nature and purpose of reserves**

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

### **7. Changes in accounting policies and estimates**

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.



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

### **8. 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.

### **9. Related parties**

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

### **10. Cash and cash equivalents**

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

### **11. Comparative figures**

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

### **12. Events after the reporting period**

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

### **13. Ultimate and Holding Entity**

The entity is a County Public Fund established The Bungoma County Assembly (Employees' Car Loan Scheme Fund) Regulations, 2017 on 16<sup>th</sup> January 2017 and The Public Finance Management (Bungoma County Assembly) (Employees' Mortgage Scheme Fund) Regulations, 2018 on 19<sup>th</sup> April 2018. Its ultimate parent is the County Assembly of Bungoma.

### **14. Currency**

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

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

### **15. Significant judgments and sources of estimation uncertainty**

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

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

#### **Useful lives and residual values**

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

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

### **16. 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.

**9.7. NOTES TO THE FINANCIAL STATEMENTS**

**1. Interest income**

Description	FY2018/2019	FY2017/2018
	Kshs	Kshs
Interest income from loans	1,946,125	1,751,206
Interest income from loans-Receivable	172,211	
Interest income from loans-Loan Offset	415	
<b>Total interest income</b>	<b>2,118,751</b>	<b>1,751,206</b>
<i>Adjustments</i>		
Interest Receivable F/Y 2017-18)	(162,206)	
	<b>1,956,545</b>	

The adjustment arose due to error of omission in the recognition of the interest receivable of Kshs. 162,206 in the prior year financial statements.

**2. Fund administration expenses**

Description	FY2018/2019	FY2017/2018
	Kshs	Kshs
Professional services costs	171,860.00	-
<b>Total</b>	<b>171,860.00</b>	<b>-</b>

**3. General expenses**

Description	FY2018/2019	FY2017/2018
	Kshs	Kshs
Insurance costs-Valuation Costs		24,000
Postage-Gazetment of Regulations		109,040
Hospitality	331,160	1,285,600
Other expenses- Bank Charges	23,848	43,332
<b>Total</b>	<b>355,008</b>	<b>1,461,972</b>

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*Bungoma County Assembly – Employee Car Loan and Mortgage Fund  
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For the year ended June 30, 2019*

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

**4. Cash and cash equivalents**

Description	FY2018/2019	FY2017/2018
	Kshs	Kshs
Current account	869,186	8,471
<b>Total cash and cash equivalents</b>	<b>869,186</b>	<b>8,471</b>

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

Financial institution	Account number	FY2018/2019	FY2017/2018
		Kshs	Kshs
<b>Current account</b>			
Kenya Commercial bank	1206004991	838,398	8,244
Kenya Commercial bank	1206090308	30,787	227
<b>Grand total</b>		<b>869,186</b>	<b>8,471</b>

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

**5. Receivables from exchange transactions**

Description	FY2018/2019	FY2017/2018
	Kshs	Kshs
<b>5A. Current loan repayments due-CASB Borrowings</b>		
<b>Balance brought forward</b>	<b>7,599,294</b>	-
Add:-Borrowings During the Year	21,027,300	29,949,041
Less-Repayments During the Year	(11,436,276)	(22,349,747)
	<b>17,190,318</b>	<b>7,599,294</b>
Interest Receivable	172,211	162,206
Other exchange debtors-MCA'S Car Loan	40,301	40,301
<b>Total Current receivables</b>	<b>17,402,830</b>	<b>7,801,801</b>
<b>Non-Current Receivables</b>		
<b>5B. Long term loan repayments due</b>		
<b>Balance brought forward</b>	<b>65,998,364</b>	-
Add:-Loan disbursements paid out	21,100,000	74,032,000.00
Loan Offset	166,497	-
Buying off of Loans from MCA Car Loan	-	1,459,698.94
Less:-Proceeds from loan principal repayments	(14,616,407)	( 9,493,335.06)
Proceeds from loan offset principal repayments	(166,082)	
<b>Total Long term loan repayments due</b>	<b>72,482,372</b>	<b>65,998,364</b>
<b>Insurance Receivable</b>		
<b>Balance brought forward</b>	<b>7,392,168</b>	-
Insurance Premium Paid	-	7,650,000.00
Insurance Premium Recovered	357,190	257,832.00
<b>Total Insurance Receivable</b>	<b>7,034,978</b>	<b>7,392,168</b>
<b>Total Non-current receivables</b>	<b>79,517,350</b>	<b>73,390,532</b>
<b>Grand Total receivables from exchange transactions</b>	<b>96,920,180</b>	<b>81,192,333</b>

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

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

Description	FY2018/2019	FY2017/2018
	Kshs	Kshs
Other payables-Recoveries not classified	158,884.95	-
<b>Total trade and other payables</b>	<b>158,884.95</b>	<b>-</b>

**7. Transfers from County Government**

Description	2018/2019	2017/2018
	Kshs	Kshs
Transfers from County Govt. – operations	15,000,000	80,911,570
<b>Total</b>	<b>15,000,000</b>	<b>80,911,570</b>

**8. Related party balances**

**a) Nature of related party relationships**

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

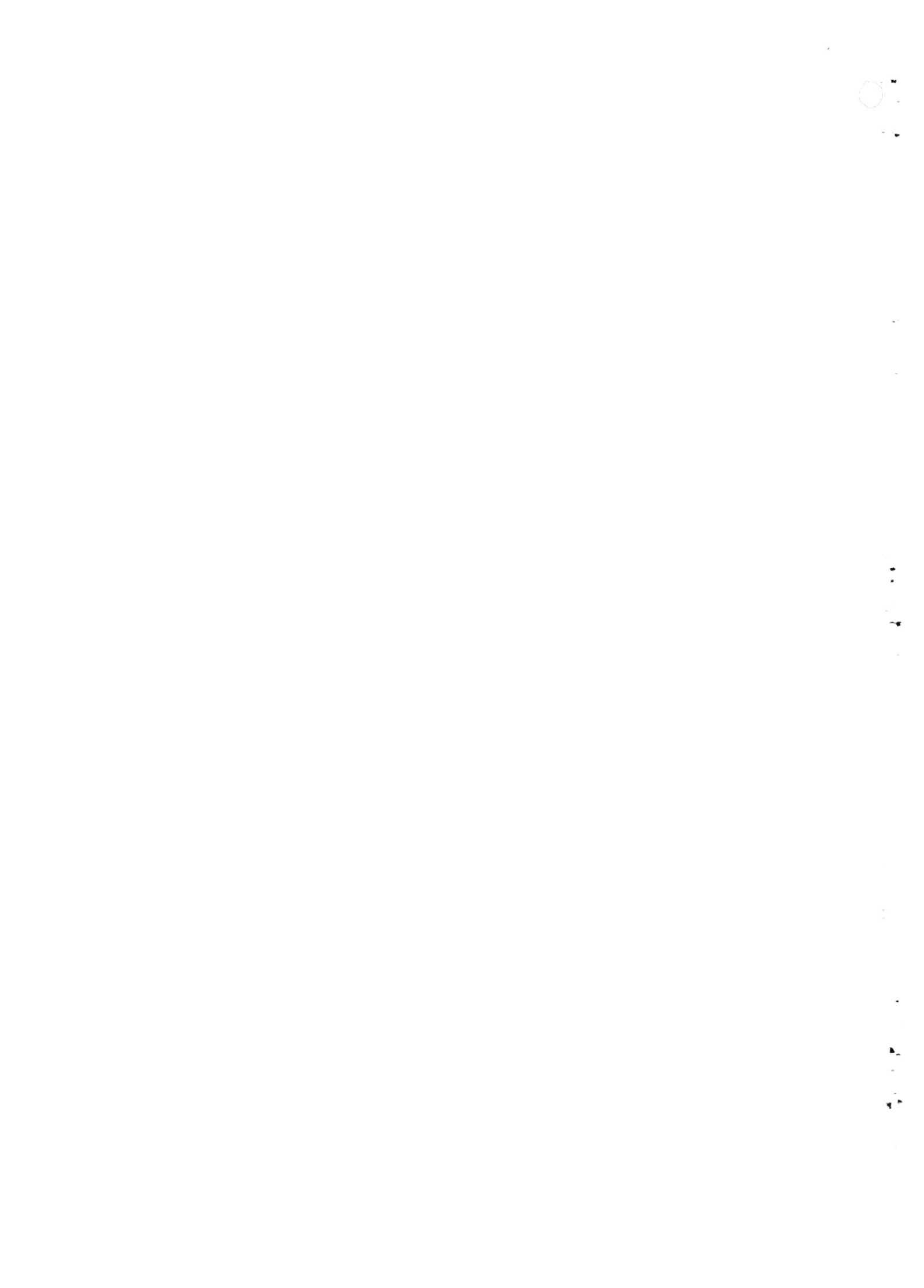
- a) The County Government;
- b) The Parent County Government Ministry;
- c) Key management;
- d) Board of Trustees; etc.

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

**b) Due from related parties**

**c) Due to related parties**

	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Due to County Government	17,190,318	7,599,294
<b>Total</b>	<b>17,190,318</b>	<b>7,599,294</b>



**10. PROGRESS ON FOLLOW UP OF AUDITOR 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	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.1 Lack of Security on Mortgage Disbursed to Staff	Out of the disbursed amount of Kshs.74,032,000 as reflected under note 4 is Kshs.13,842,941 where there were no charges registered on the properties and the name of the County Assembly was not entered in the title documents to register its interest for the mortgages in line with Regulation 16(1) of the Bungoma County Assembly (Employees' Mortgage Scheme	The management agrees with the findings of the audit and has adopted steps in ensuring the fund complies with the regulations.	John Mosongo	In process	



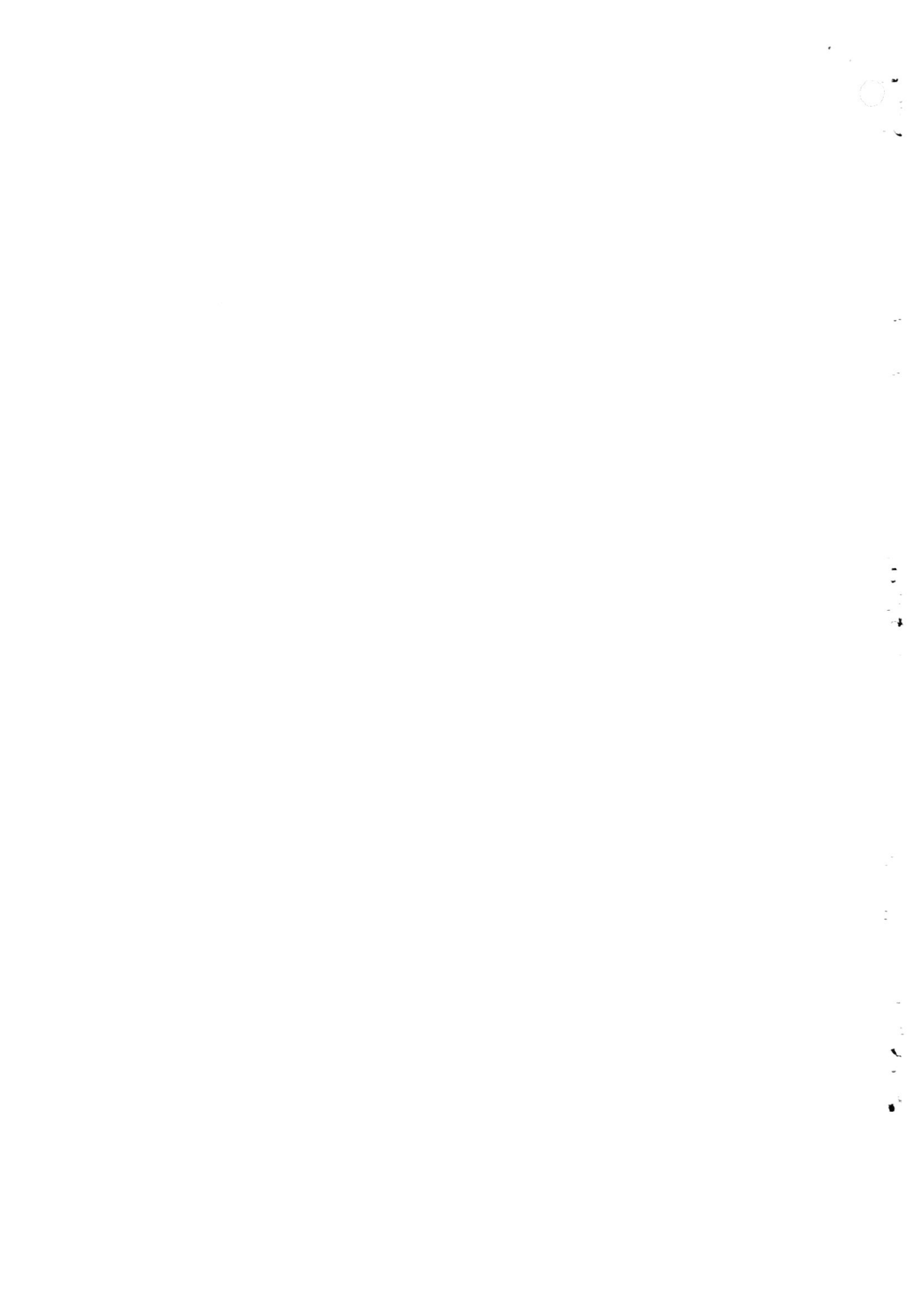
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Reference No. on the external audit Report	Issue/ Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Fund) Regulations, 2018 which stipulates that the Committee shall have a charge registered on the property financed through a loan granted and shall be entitled to have its name entered in all documents of title for such property.				
1.2. Irregular Advances of Car and Mortgage Loans	It was noted that the applications for the advanced mortgages totaling Kshs.13,842,921 out of the disbursed amount of Kshs.74,032,000 as reflected under note 4 during the year under review were not supported by the				



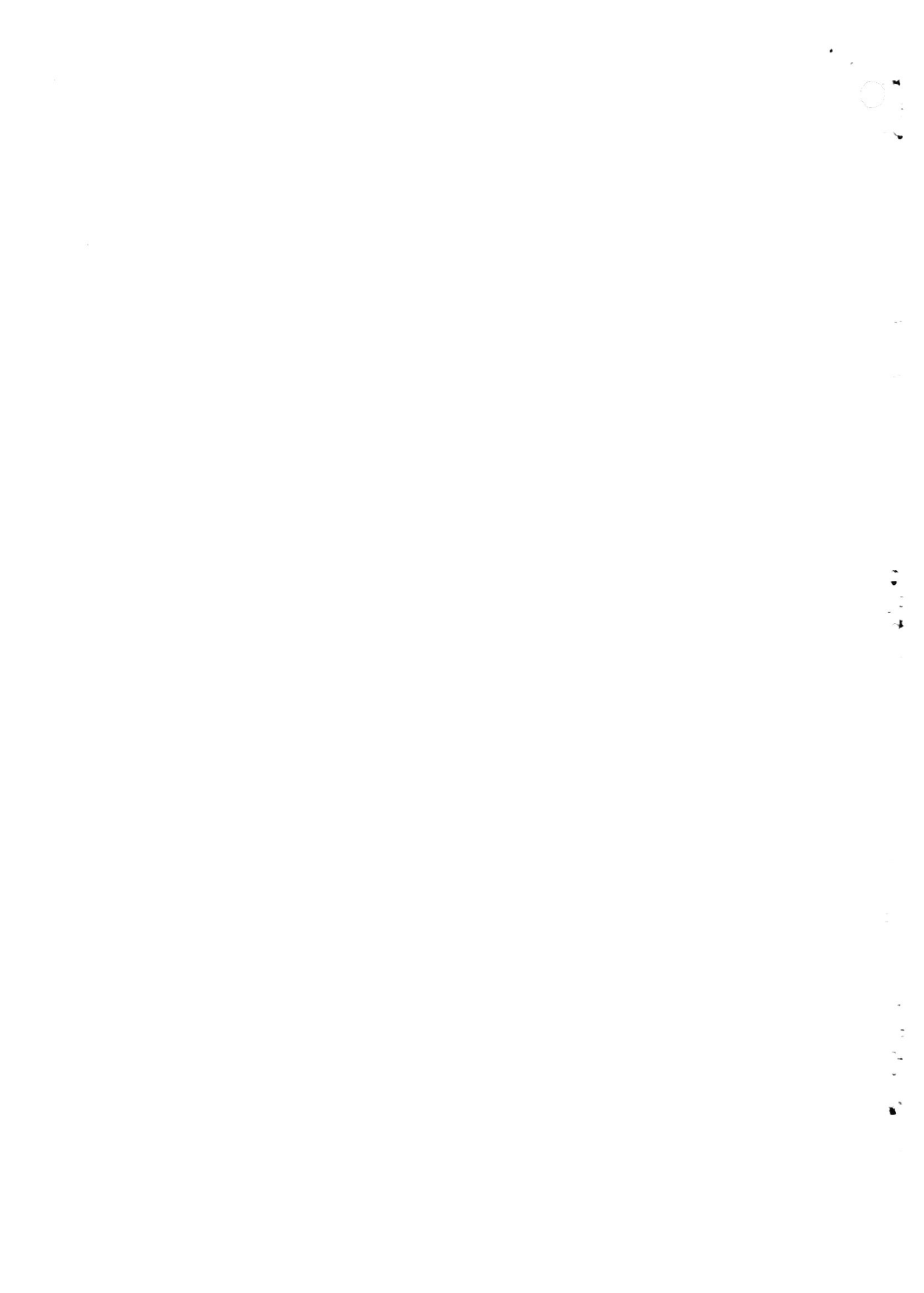
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>following documents as prescribed by Regulation 10(1) of the Bungoma County Assembly (Employees' Mortgage Scheme Fund) Regulations, 2018;</p> <ul style="list-style-type: none"> <li>•Copies of the designs of the proposed residential property duly approved by relevant Government agency;</li> <li>•Bills of quantities in respect of the proposed development, renovation or repair.</li> </ul>				
2.Lack of an Approved Budget	Review of the Fund's loan management committee minutes and financial	The management agrees with the findings of the	Fund Committee	Resolved	



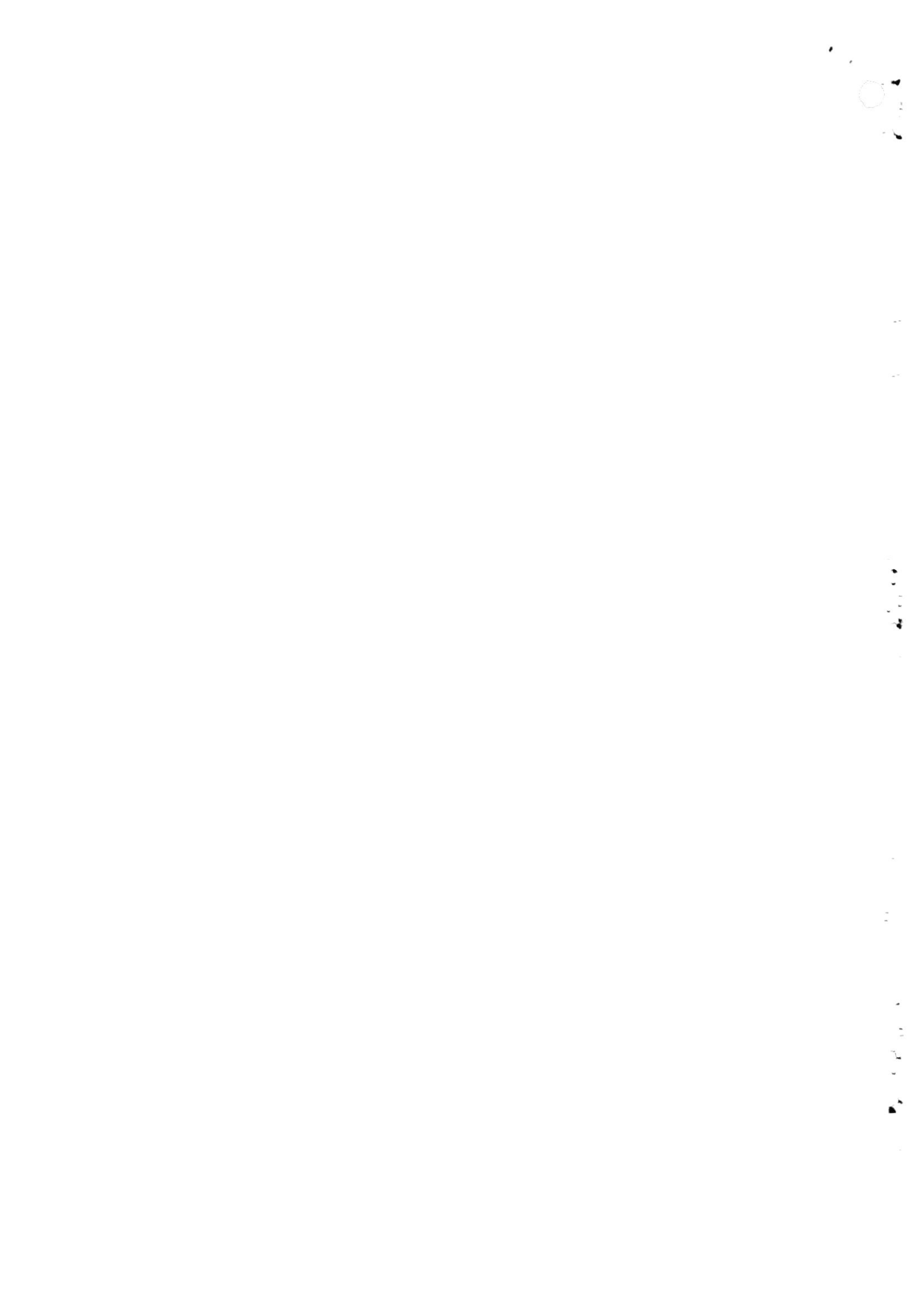
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not-Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>statements for the year under review revealed that operation of the Fund were not guided by an approved budget. Therefore, administration of the Fund was not conducted in compliance with Section 149(2h) of the Public Finance Management Act 2012, which requires the accounting officer to prepare estimates of expenditure of the entity in conformity with the strategic plan. In addition, the Fund was exposed to risk of over and underutilization and misapplication of the</p>	<p>audit and has made necessary steps to ensure compliance.</p>			



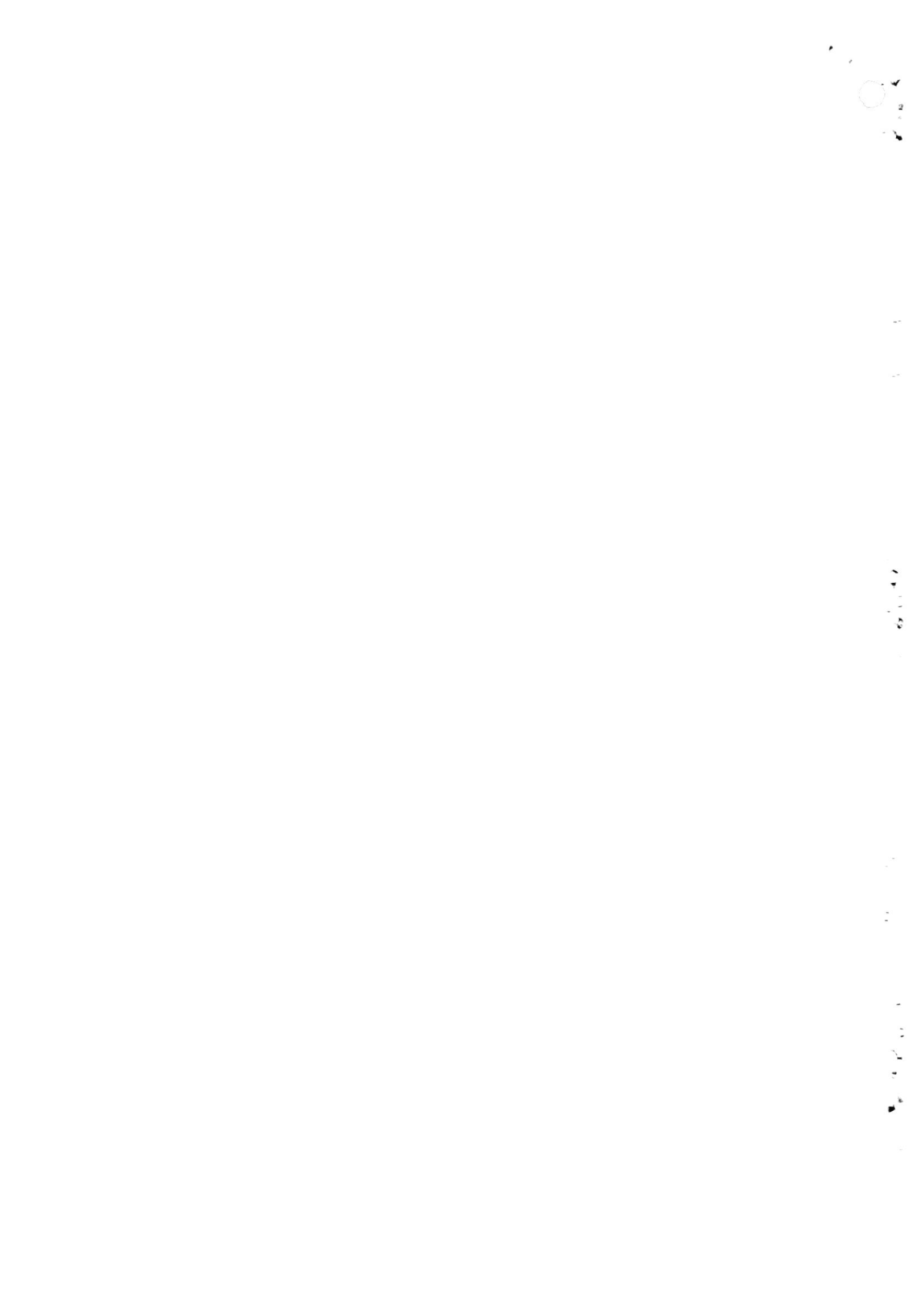
**Bungoma County Assembly – Employee Car Loan and Mortgage Fund  
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Reference No. on Annual audit	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	funds.				
3.Outstanding Borrowings by County Assembly Service Board	Included under receivables from exchange transactions of Kshs.81,030,127 under Note 4 is total current receivables of Kshs.7,639,595 in respect of un-refunded borrowings by the County Assembly Service Board in contravention of Regulation 4 of both the Public Finance Management (County Assembly Staff Car Loan Scheme Fund) Regulations, 2017 and the Public Finance Management (County Assembly Staff Mortgage Fund)	The management agrees with the findings of the audit and the same has been communicated to the County Assembly Service Board to ensure refund is instituted.	Fund Accountant		



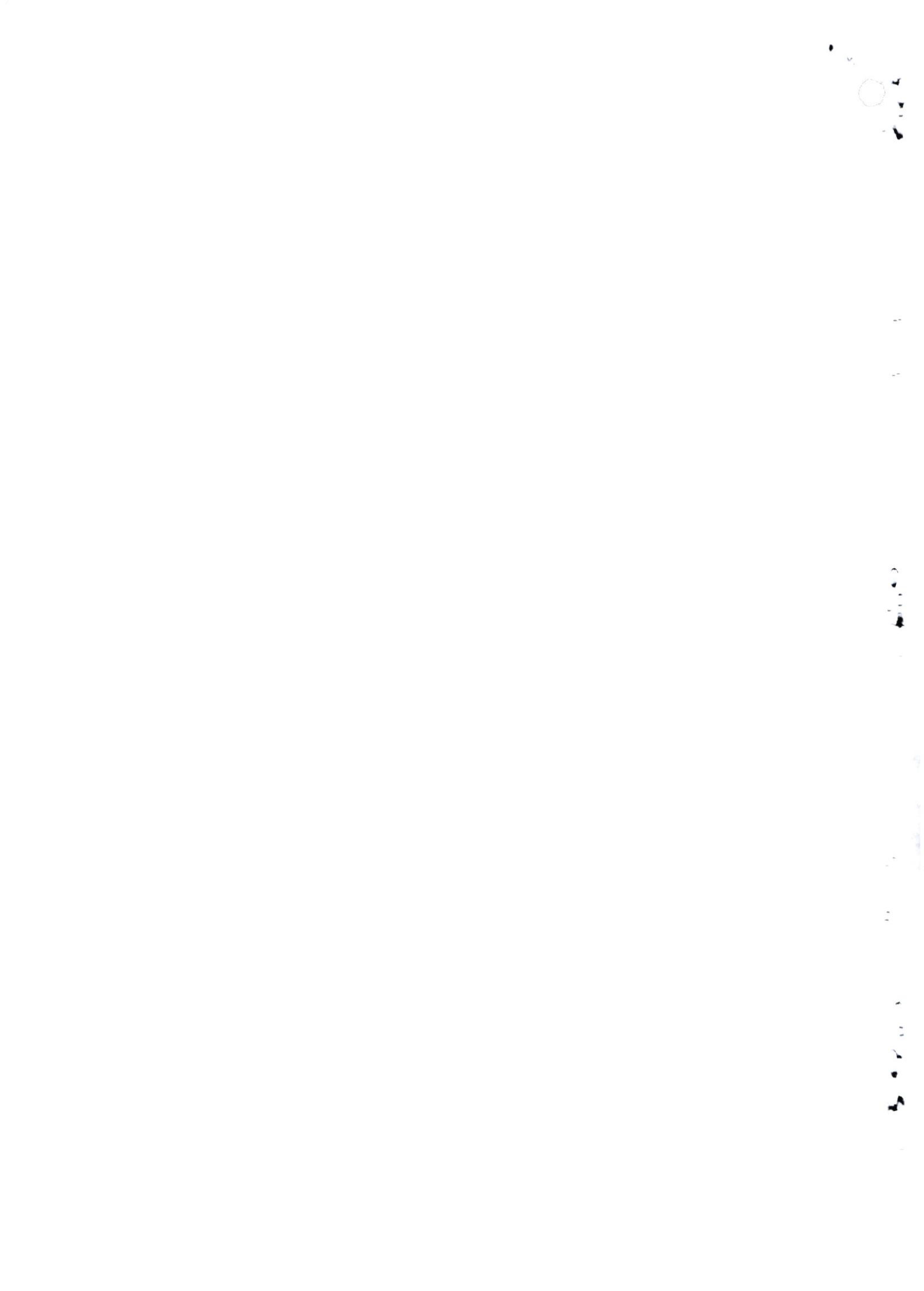
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Plus a date when you expect the issue to be resolved)
	<p>Regulations, 2018 which states that the object and purpose of the fund is to provide a loan scheme for the purchase of vehicles by Staff of the scheme and for the purchase, development, renovation or repair of residential property by Staff of the scheme, respectively.</p> <p>Further, the management did not provide records on the applications for borrowings, loans management committee approval minutes and executed loans agreement</p>				



*Bungoma County Assembly – Employee Car Loan and Mortgage Fund  
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Reference No. on the external audit	Issue / Observations from	Management comments	Focal Point person to (provide name and designation)	Status:	Timeframe: (Put a date when you expect the issue to be resolved)
	relevant to the borrowings.				
4.Irregular Award of the Insurance Services Tender	Under note 4 to the financial statements is Kshs.7,650,000 incurred to procure a local insurance broker using restricted procurement method in respect of premium for provision of Group Credit Life Insurance for Mortgage and Car Loan. However, the service provider was procured irregularly since the amount is above the threshold of the restricted tendering method used in line with the first schedule of the Public Procurement	The management agrees with the findings of audit and has resolved to following the laid out Procurement plan policies and Acts	John Mosongo	Resolved	



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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status (Resolved / Not Resolved)	Timeframe (Put a date when you expect the issue to be resolved)
	and Disposal (Amendment) Regulations, 2013 which sets the threshold of Kshs.3,000,000 as a minimum value of procurement of services that require advertising under the alternative procurement method.				
5.Failure to Remit Fringe Benefit Tax	It was noted that the Fund did not remit to Kenya Revenue Authority (KRA) fringe benefit tax accrued from the low interest loans members which had accumulated to Kshs.2,025,051 as at 30 June 2018	The management agrees with the findings of the audit. This tax is to be remitted by the employer and the same has been communicated to the Finance and Accounts	John Mosongo	Resolved	



***Guidance Notes:***

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

