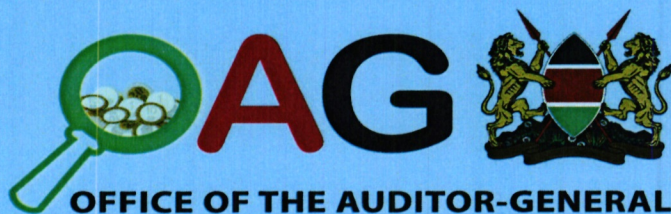


REPUBLIC OF KENYA

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REPORT

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THE AUDITOR-GENERAL

ON

**BUSIA COUNTY CO-OPERATIVE
ENTERPRISE DEVELOPMENT FUND**

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



BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

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BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND
Reports and Financial Statements
For the year ended June 30, 2020

1. KEY ENTITY INFORMATION AND MANAGEMENT

I. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The Cooperative Enterprise Development Fund was established by the County Government of Busia through an Act of the County Assembly of Busia, THE COOPERATIVE ENTERPRISE DEVELOPMENT FUND ACT, 2014. The Fund started its operations in July 2014 after being launched by H.E the Governor on 13th June, 2014.

The mandate of the Fund as provided for in the Act is to provide affordable (low interest) loans to cooperative societies in Busia County, with a view to support them to scale up their lending activities, value addition, promote entrepreneurship and enhance production and productivity.

Specifically the Fund provides funds to:

- Support, revive and initiate cooperative institutions.
- Attract and facilitate investments in cooperatives that have linkages to micro, small and medium enterprises that benefit the youth.
- Attract and facilitate investments in cooperatives that have linkages to low income persons, community-based organisations, and women groups.
- Facilitate cooperatives to market their products and/or services in both domestic and international markets.

Fund operations are overseen by a committee (Board) comprising of eight members, four public officers and four non-public officers. The Chairman of the Fund Committee, by law must be a non-public officer.

The day to day administration of the Fund is done by Fund Unit headed by a Director (Fund Administrator), loan officers and an accountant.

b) Principal activity of the Fund

The Funds' principal activity is to provide funds to be used for granting low interest loans to cooperative institutions operating in Busia County with a view to scaling up their lending activities, value addition, promote entrepreneurship and enhance productivity.

c). Fund Administration Committee

Ref	Name	Position
1	Hellen Ajiambo Mukanda	Committee chairperson
2	Catherine Tera Nagwalla	Member

BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND

Reports and Financial Statements

For the year ended June 30, 2020

3	Roselyne Nelima Pepela	Member
4	Oscar Eugene Odaba	Member –Fund Director/Committee secretary
5	Vincent JumaOmbitsi	Member -representative of Chief Officer Finance
6	Nelson Makokha Kwamini	Member -Chief Officer Cooperatives
7	Rodgers Abwire Sekwe	Member-representing County Attorney

d). Key Management

Ref	Name	Position
1	Oscar Eugene Odaba	Fund Administrator/Committee secretary
2	Paul BarasaOundo	Fund Accountant

e). Headquarters

P.O. Box 353-50400

Cooperative House

Assembly Road

Busia, KENYA

f). Contacts

Telephone (254) 733-342435

Email: coopfundbusia@gmail.com

Website: www.busiacounty.go.ke

g) Bankers

Co-operative Bank of Kenya-Busia Branch

P.O. Box 326-50400

Busia, Kenya

h). Independent Auditors

Auditor General

Kenya National Audit Office

Anniversary Towers, University Way

P.O.BOX 30084-00100

Nairobi, Kenya

i) Principal Legal Advisor

The County Attorney

County Government of Busia

P.O Box Private Bag

Busia, Kenya

BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND

Reports and Financial Statements

For the year ended June 30, 2020

2. BOARD/FUND CHAIRPERSON'S REPORT

The Cooperative Enterprise Development Fund has been focused on improving the lives of the people of Busia County by giving them affordable loans to advance their socio-economic activities. Most of the beneficiaries have engaged in various productive activities such as agricultural production, housing development and value addition.

The fund unit is committed in ensuring that all loans advanced are recovered despite various challenges which include inadequate resources coupled with limited capacities of respective co-operative societies in governance.

The major challenges of the Fund for the year under review have been: no budgetary allocation from the County Treasury; lack of transport for the Fund Unit to effectively make follow ups on loan repayments and non-repayment of loans by the beneficiaries due to the flood menace and the Covid-19 that affected economic/business activities of cooperatives and their membership.

The fund requires consistence in fund allocation so that as part of its mandate, it can make investments to supplement the small interest income to support operations, maintenance and administrative expenses. This has held back the Fund's plan to carry out the necessary training for the loan beneficiaries. It is my hope that in the coming financial years funding will be enhanced to make the Committee plan well for the sustainability of the Fund.

The Fund Committee acknowledges the support His Excellency the County Governor has shown in spearheading the development of the County and the people of Busia through making people access affordable loans through this Fund. The Committee also extends its appreciation to the office of the County Executive Committee Member for Trade, Investment, Industry and Cooperatives for his unwavering support to the Fund programmes.

for 
.....
FUND CHAIRPERSON

3. REPORT OF THE FUND ADMINISTRATOR

Key activities during the year

During the year under review the Fund had two main activities, Loaning and recovery of the disbursed loans. The Fund disbursed a total of Kshs. 18,600,000 to 28 cooperative societies and recovered Kshs. 4,329,554 from various loanees in all the seven sub-counties of the county. The three sub-county loan officers continued to monitor the performance of the loan and to give technical advice and capacity building to various cooperative societies.

Financial Performance

The Fund performance for the year under review was negatively affected by the Covid-19 situation and hence a reduction in the Fund's interest income. This also led to low principal repayment rate. The Fund had total revenue of Kshs1,732,891.

Challenges

During the year the Fund faced a number of challenges that negatively affected the Fund's ability to deliver on its mandate. These challenges are summarised below:

- (i) Zero allocation of funds from the county treasury. Therefore income from interest on loans disbursed was lost.
- (ii) Lack of transport for use in the field to monitor and do recoveries of disbursed.
- (iii) Serious shortage of technical staff. The fund lacks, a monitoring and evaluation specialist and has only three loan officers operating in the seven sub-counties of the county.
- (iv) Lack of an Enterprise Resource Planning system, especially a loan management system. All Fund operations are still manual and therefore a high risk of losing Fund records in case of a disaster.
- (v) Lack of autonomy of the Fund. At the moment the Fund is just a unit within the Department of Trade, Co-operatives and Industrialisation, despite the fact that there is a Fund Committee that is supposed to be a body corporate. This limits the Fund's ability to mobilise resources from external sources.
- (vi) None allocation of a recurrent budget to the Fund. The money allocated to the fund has always been treated as development, thus limiting the Fund's expenditure on administration and training of funded cooperative societies.

Way forward

In order to address the above mentioned challenges and to make the Fund Sustainable the following issues need to be addressed both by the Fund Committee and the County Treasury

BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND
Reports and Financial Statements
For the year ended June 30, 2020

- (i) A Fund needs to operate with a certain minimum amount of seed capital. We suggest that the Treasury needs to give the Fund at least kshs100 million annually for at least five years for the fund to be able to be sustainable and to meet its objectives.
- (ii) To facilitate faster delivery of services, including monitoring and recovery of disbursed loans, the Fund needs to have loan officers in all the sub counties.
- (iii) The Fund will continuously review the loan portfolio to address the portfolio in arrears.
- (iv) The Fund has already commenced the process of joining the credit information sharing platform and therefore, defaulting cooperative societies and their officials will in future be listed with credit reference bureaus.
- (v) The Fund needs to be gazetted as a semi-autonomous county government entity for it to fully realise the objectives for which it was established.
- (vi) Efforts are being made to digitize all Fund operations through acquisition of an Enterprise Resource Planning System, and especially the loan operations.

4. CORPORATE GOVERNANCE STATEMENT

i. Introduction

The Committee of The Fund is committed to upholding the principals of corporate governance that will promote the interest of the people of Busia County, build confidence in its leadership and strengthen the accountability of the committee.

ii. Committee.

a. Mandate

The committee's responsibilities are to formulate guidelines on cooperative sector funding; ensure that all projects funded under the Fund's Act are consistent with the counties priorities specified in relevant policy documents; approve proposal submitted to it by the unit under the Act; authorise allocations from the Fund; formulate or approve standards, guidelines and procedures for funding proposals under the Act; Approve the organisation structure of the unit; provide oversight in the utilisation of the fund and; perform any other function as may be conferred on it by the Act or any other written law.

The committee's operations are governed by the Cooperative Enterprise Development Fund Act

b. Membership and size

The membership comprises of long serving public and non public servants helping the Fund with diverse experience

The committee currently comprises of seven members. Three from the private sector and the rest from the public sector

The committee is satisfied with the commitment of each member.

c. Operations

The chairperson together with the fund administrator ensures that committee operates effectively and in accordance with the Fund's Act.

The committee meets regularly at least four times a year however, not all such meetings have been held in the year under review due to financial challenges.

d. Committee compensation.

The committee compensation is done in accordance with the salaries and remuneration guidelines.

e. Separation of roles.

The roles of the Chairperson and the Fund Administrator are separately held and the division of their responsibilities is clearly established to ensure no duplication or conflict of roles.

Chairperson is responsible for ensuring effective communication with stakeholders including donors, promoting high level of cooperate governance and serving as a resource to management in matters of strategic importance to the Fund.

The Director/Administrator is responsible for managing day to day operations of the Fund, execution of strategy and policy approved by the committee. He is also accountable for the Fund performance and reports directly to the committee for policy direction and to the County Chief Officer for administrative purposes..

BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND

Reports and Financial Statements

○ **For the year ended June 30, 2020**

5. REPORT OF THE COMMITTEE MEMBERS

The Committee Members submit their report together with the audited financial statements for the year ended June 30, 2020 which show the state of the *entity's* affairs.

Principal activities

The Funds' principal activity is to provide funds to be used for granting low interest loans to cooperative institutions operating in Busia County with a view to scaling up their lending activities, value addition, promote entrepreneurship and enhance productivity.

Results

The results of the entity for the year ended June 30, 2020 are set out on pages 10, 11 and 13

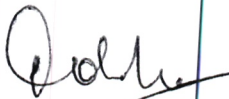
Directors

The members of the Committee who served during the year are shown on pages 1 and 2.

Auditors

The Auditor General is responsible for the statutory audit of the Cooperative Enterprise Development Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year/period ended June 30, 2020.

By Order of the Committee



Oscar E. Odaba, MKIM
Committee Secretary

28th September, 2020

6. 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 Busia County Cooperative Enterprise Development Fund Act, 2014 shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

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

The Administrator of the County Public Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Busia County Cooperative Enterprise Development Fund Act, 2014. The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2020, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

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

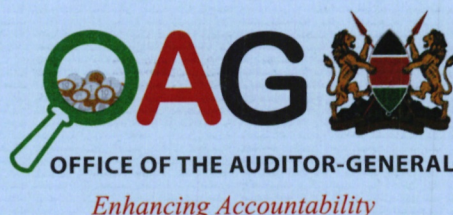
Approval of the financial statements

The Fund's financial statements were approved by the Board on 28th September, 2020 and signed on its behalf by:



Fund Administrator

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 BUSIA COUNTY CO-OPERATIVE ENTERPRISE DEVELOPMENT FUND FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Busia County Co-operative Enterprise Development Fund set out on pages 10 to 28, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, statement of cash flows 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 Busia County Co-operative Enterprise Development Fund as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Busia County Co-operative Enterprise Development Fund Act, 2014.

Basis for Qualified Opinion

Current Portion of Long Term Receivables from Exchange Transactions

As previously reported, the statement of financial position reflects current portion of long-term receivables from exchange transactions balance of Kshs.73,900,118 as at 30 June, 2020, which is in respect of outstanding loans due from seventy (70) co-operative societies. The Kshs.73,900,118 includes Kshs.52,777,779 due from fifty-nine (59) co-operative societies which have not paid.

Consequently, the collectability of the Kshs.52,777,779 due from the fifty-nine co-operatives is in doubt.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Busia County Co-operative Enterprises Development Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in

Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Sustainability of Services

During the year under review, the Fund recorded net deficit of Kshs.2,281,271 which brought the accumulated deficit to Kshs.34,614,860 as at 30 June, 2020. The Kshs.34,614,860 has reduced the revolving Fund from the initial investment of Kshs.113,005,000 to Kshs.78,390,140 as at 30 June, 2020. Therefore, if recovery strategies are not put in place to reverse the loss-making trend, the Fund's future operations are likely to face financial challenges.

In the circumstances, the future sustainability of services by the Fund is dependent on the continued financial support by the Busia County Executive.

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The Fund budgeted to receive a total of Kshs.37,813,841 during the year under review and which included Kshs.7,000,000 from the County Executive. However, the Fund realized only Kshs.22,402,591, resulting to a shortfall of Kshs.15,411,250 or approximately 41% of the budgeted revenue. Further, the Fund had budgeted to spend Kshs.37,813,841 but recorded actual expenditure of Kshs.22,614,162 resulting to an under expenditure of Kshs.15,199,679 or 40% of the budgeted amount.

In the circumstances, the Fund may not achieve its objective due to improper budgetary controls.

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

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (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 its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting, unless Management is aware of the intention to 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 requirement, 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 of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with

Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's

ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 February, 2022

BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND
Reports and Financial Statements
For the year ended June 30, 2020

8. FINANCIAL STATEMENTS

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

	Note	FY2019/2020	FY2018/2019
		KShs	KShs
Revenue from non-exchange transactions			
Transfers from the County Government	1	-	495,000
Revenue from exchange transactions			
Interest income	2	1,544,766	3,652,510
Other income	3	188,125	-
Total revenue		1,732,891	4,146,510
Expenses			
Staff Costs	4	1,730,798	1,651,830
General expenses	5	2,283,364	2,744,680
Total expenses		4,014,162	4,396,510
Surplus/(deficit)for the period		(2,281,271)	(250,000)

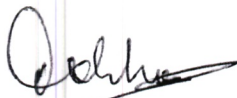
The notes set out on pages 21 to 24 form an integral part of these Financial Statements

BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND
Reports and Financial Statements
For the year ended June 30, 2020

8.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	FY2019/2020	RESTATED FY 2018/2019	FY 2018/2019
		KShs	KShs	KShs
Assets				
Current assets				
Cash and cash equivalents	6	120,793	16,340,146	16,340,146
Current portion of long term receivables from exchange transactions	7	73,900,118	59,629,672	65,124,168
Outstanding imprests				
Non-current assets				
Property, plant and equipment	8	4,369,229	4,701,593	4,701,593
Total assets		78,390,140	80,671,411	86,165,907
Liabilities				
Current liabilities				
Trade and other payables from exchange transactions		-	-	-
Total liabilities		-	-	-
Net assets				
Revolving Fund		113,005,000	113,005,000	113,005,000
Accumulated deficit		-34,614,860	-32,333,589	-26,839,093
Total net assets and liabilities		78,390,140	80,671,411	86,165,907

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 28th September, 2020 and signed by:



Oscar E. Odaba
Fund Administrator

BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND

Reports and Financial Statements

For the year ended June 30, 2020

8.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2020

	Revolving Fund	Accumulated Deficit	Total
		KShs	KShs
Balance as at 30 June 2018	97,000,000	(26,589,093)	70,410,907
Surplus/(deficit)for the period	-	(250,000)	(250,000)
Funds received during the year	16,005,000		16,005,000
Transfer from accumulated surplus	-		-
Balance as at 30 June 2019	113,005,000	-26,839,093	86,165,907
Restated Balance as at 30 June 2019	113,005,000	-32,333,589	80,671,411
Balance as at 30 July 2019	113,005,000	-32,333,589	80,671,411
Surplus/(deficit)for the period		(2,281,271)	(2,281,271)
Funds received during the year			
Transfer from accumulated surplus	-	-	-
Balance as at 30 June 2020	113,005,000	(34,614,860)	78,390,140

BUSIA COUNTY COOPERATIVE ENTERPRISE DEVELOPMENT FUND
Reports and Financial Statements
For the year ended June 30, 2020

8.4. STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	FY2019/2020	FY2018/2019
		KShs	KShs
Cash flows from operating activities			
Receipts			
Transfers from the County Government	1	-	495,000
Interest received	2	1,544,766	3,651,510
Other Income	3	188,125	-
Total Receipts		1,732,891	4,146,510
Payments			
General expenses	5	1,951,000	2,258,192
Staff cost	4	1,730,798	1,651,830
Total Payments		3,681,798	3,910,022
Net cash flows from operating activities		(1,948,907)	236,488
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		-	-
Loan disbursements paid out		(18,600,000)	(400,000)
Proceeds from loan principal repayments		4,329,554	
Net cash flows used in investing activities		(14,270,446)	(400,000)
Cash flows from financing activities			
Proceeds from county treasury		-	16,005,000
Donation from development partners		-	-
Net cash flows used in financing activities		-	16,005,000
Net increase/(decrease) in cash and cash equivalents		(16,219,353)	15,841,488
Cash and cash equivalents at 1 JULY		16,340,146	498,658
Cash and cash equivalents at 30 JUNE	6	120,793	16,340,146

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8.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2020

	Original budget	Final budget	Actual on comparable basis	Performance difference	% utiliz ation
	2020	2020	2020	2020	2020
Revenue	KShs	KShs	KShs	KShs	
Bal brought forward	16,340,146	16,340,146	16,340,146	-	1
Principal loan repayments	9,870,574	9,870,574	4,329,554	5,541,020	0.44
Interest on loan arrears	968,808	968,808	0	968,808	0
Transfers from County Govt.	7,000,000	7,000,000	0	7,000,000	0
Interest income	2,643,137	2,643,137	1,544,766	1,098,371	0.58
Income from admin fee	991,176	991,176	188,125	803,051	0.19
Total income	37,813,841	37,813,841	22,402,591	15,411,250	0.59
Expenses					
Loan disbursements paid out	33,039,215	33,039,215	18,600,000	14,439,215	0.56
Staff costs	1,283,776	1,283,776	1,730,798	-447,022	1.35
General expenses	3,490,850	3,490,850	2,283,364	1,207,486	0.65
Total expenditure	37,813,841	37,813,841	22,614,162	15,199,679	0.60
Surplus for the period	-	-	(211,571)	211,571	-

Budgetary notes.

1. Principal on loan repayments: Our projected disbursement included funds from County exchequer which was never received.
2. Interest Income: also this income was to come from the projected disbursement which was not done as budgeted since the County exchequer never released the Funds.
3. Income from administration fee: Also non disbursement fro county exchequer hindered realisation of interest income.
4. Loan disbursements paid out: Non disbursement of Funds from the exchequer.
5. Staff Costs: increase in domestic travels and subsistence.
6. General expenses: reduction of fund activities.

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8.6. 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 2018

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

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

c) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its costs 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 fairvalue.

The depreciation rates are as follows:

Furniture and Fittings-12 1/2 %

Motor Vehicle-20%

Computers-5years

5. Nature and purpose of reserves

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

6. 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.

7. Comparative figures

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

8. Events after the reporting period

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

9. Ultimate and Holding Entity

The entity is a County Public Fund established by Cooperative Enterprise Development Act, 2014 under the Ministry of Trade Cooperatives and Industrialization. Its ultimate parent is the County Government of Busia.

10. Currency

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. 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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12. Financial risk management

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 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 company's management based on prior experience and their assessment of the current economic environment.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company 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.

b) Capital risk management

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

	FY 2020	RESTATED FY 2019	FY 2019
	KShs	KShs	KShs
Revolving fund	113,005,000	113,005,000	113,005,000
Accumulated deficit	-34,614,860	-32,333,589	-26,839,093
Total funds	78,390,140	80,671,411	86,165,907

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8.7. NOTES TO THE FINANCIAL STATEMENTS

1. Transfers from County Government

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Transfers from County Govt. – operations	-	495,000
Total	-	495,000

2. Interest income

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Interest income from loans	1,544,766	3,651,510
Interest income from fixed deposit	-	-
Total interest income	1,544,766	3,651,510

3. Other income

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Income from administrative fees	188,125	-
Income from operating activities	-	-
Total other income	188,125	-

4. Staff costs

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Salaries and wages	1,085,128	980,480
Other staff costs	645,670	671,350
Total	1,730,798	1,651,830

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. General expenses

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Training	-	20,000
Fuel and oil costs	-	-
Postage		9,450
Advertising and Tradeshow	150,000	250,000
Printing and stationery	11,900	6,960
Office admin	472,400	382,865
Repairs & Maintainance		32,101
Telecommunication	120,000	165,000
Hospitality	1,129,700	1,545,940
Depreciation and amortization costs	332,364	332,364
Other expenses	67,000	-
Total	2,283,364	2,744,680

6. Cash and cash equivalents

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Current account	120,793	16,340,146
Total cash and cash equivalents	120,793	16,340,146

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

Financial institution	Account number	FY2019/2020	FY2018/2019
		KShs	KShs
a) Current account			
Cooperative Bank Of Kenya	01141236664000	2,700	16,006,235
Cooperative Bank Of Kenya	01141236664001	2,247	24,633
Cooperative Bank Of Kenya	01141236664002	115,846	309,278
Sub- total		120,793	16,340,146

7. Receivables from exchange transactions

Description	FY2019/2020	RESTATED FY 2018/2019	FY2018/2019
	KShs	KShs	KShs
Current Receivables			
Loan receivable Bal b/f As at July, 2019	59,629,672	62,517,420	68,011,916
Less: Recoveries	4,329,554	3,287,748	3,287,748
Add: Disbursements	18,600,000	400,000	400,000
Loan receivable Bal c/f As at June, 2020	73,900,118	59,629,672	65,124,168
Total Current receivables	73,900,118	59,629,672	65,124,168
Total receivables from exchange transactions	73,900,118	59,629,672	65,124,168

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Property, plant and equipment

	Motor vehicles	Furniture and fittings	Computers and office equipment	Total
Depreciation Rate	20%	121/2 %	5 years	
Cost	KShs	KShs	KShs	KShs
At 1st July 2018				
Additions	-	-	28,500	28,500
At 30th June 2019	5,092,046	360,720	427,450	5,880,216
At 1st July 20189	5,092,046	360,720	427,450	5,880,216
Additions	-	-	-	-
At 30th June 2020	5,092,046	360,720	427,450	5,880,216
Depreciation and impairment				
At 1 st July 2018	474,579	157,239	214,441	846,259
Depreciation	203,682	43,648	85,034	332,364
At 30th June 2019	678,261	200,887	299,475	1,178,623
At 1st July 2019	678,261	200,887	299,475	1,178,623
Depreciation	203,682	43,648	85,034	332,364
At 30th June 2020	881,943	244,535	384,509	1,510,987
Net book values				
At 30th June 2019	4,413,785	159,833	127,975	4,701,593
At 30th June 2020	4,210,103	116,185	42,941	4,369,229

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9. 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	Financial statements did not include statement of revenue and expenditure	You noted that the financial statements as submitted for audit did not include the statement of comparison of budget and actual expenditure. We wish to state that we have since amended the financial statements to reflect the statement of comparison of budget and actual expenditure. <i>(See the financial statements)</i>	Accountant	resolved	
2	Variance of Ksh 154,124 on the statement of	Also you observed that the statement of cash flows reflects a loan	Accountant	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 <i>(Name and designation)</i>	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
	cashflow.	disbursements paid out amount to Ksh 245,876 while the records maintained by the Fund shows a figure of Kshs. 400,000 resulting in a variance of Ksh 154,124. Our response is that the financial statement has been amended to reflect the Ksh 400,000 as loan disbursements paid out in the statement of cash flow. <i>(See the financial statements)</i>			
3	Schedule of interest income was not provided	You also observed that the schedule of interest earned as reflected in the statement of income and expenditure was not availed for audit review. We hereby do provide	Accountant	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)
		the schedule of interest for your review. (See the schedule and societies statements attached.)			
4	Non-recovery of outstanding loans.	<p>Our response is that the Fund has instituted several mechanisms to enforce loan recovery. These include charging title and vehicle log books to secure loans and signing MOUs to jointly manage some of the borrower's projects on income sharing basis. In addition we continue to write demand letters to those societies in default.</p> <p>The recovery of the loan from Luanda union is pegged on the</p>	Fund Administrator	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>rehabilitation of their ginnery, which has commenced with the support of the State Department for Co-operatives. Once the ginnery starts operations, they will easily repay their loan.</p> <p>However, as a last resort, we intend to take the necessary legal action to recover all the loans as provided for under Section 21(1) (a) and (b) of the Fund Act.</p>			