REPUBLIC OF KENYA

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KISII COUNTY LOANS AND MORTGAGES FUND

FOR THE YEAR ENDED 30 JUNE, 2022

KISII COUNTY LOANS AND MORTGAGES FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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

Table of Content

1. Key Entity Information and Management

a) Background information

Kisii County Loans and Mortgages Fund is established by and derives its authority and accountability from Section 116 (2) of the PFM Act, 2012 on 7thJanuary, 2016. The Fund is wholly owned by the County Executive of Kisii and is domiciled in Kenya.
The fund's objective is to advance loans and mortgages to the county executive committee members and employees of the County Government of Kisii.

b) Principal Activities

The fund's objective is to advance Loans and mortgages to the county executive committee members and employees of the County Government of Kisii.

c) Fund Administration Committee

Ref	Name	Position
1	Mr. Moses Onderi	Chairperson
2	Mr. Wilfred Ochengo Auma	Secretary
3	Mr. Timothy Mabeta Kambuni	Member
4	Mr. Chrispnus Ibalai	Member
5	Mr. Vincent Ratemo	Member
6	Mr. Duke Ondari Ongechi	Member

d) Key Management

Ref	Name	Position
1	Hon. Moses Onderi	CEC-Finance and economic planning
2	Mr.Patrick Lumumba	County Secretary
3	Mr. Wilfred Ochengo Auma	Chief Officer Finance and Accounting Services
4	John Nyalaji Nyandanyi	Fund Accountant

e) Registered Offices

P.O. Box 4550-40200
Municipal Building
Kisii-Keroka RD
Kisii, KENYA

f) Fund Contacts

Telephone:(254) 582030005
E-mail: info@kisii.go.ke
Website: www.kisii.go.ke

g) Fund Bankers

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

Kenya Commercial Bank
SBM Bank
Kisii branch
Telephone : 0202774150
Kisii

h) Independent Auditors

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

i) Principal Legal Adviser

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

2. THE KISII COUNTY LOANS AND MORTGAGES FUND COMMITTEE

Name	Details of qualifications and experience
Mr. Moses O. Onderi – **Chairperson.** 	Mr. Moses Onderi is CEC the Finance and Economic Planning. Prior to his appointment, he headed the department of Lands, Housing and Physical Planning. He holds a Masters Degree in Education from University of Baroda, Bachelor of Education from Karnatak University, professional certificate in participatory monitoring, Evaluation and Impact Assessment from University of Wales Swansea and Higher Diploma in Human Resource Management.
Mr. Timothy Mabeta Kambuni. –**Member** 	CPA Timothy Mabeta Kambuni is the acting Chief Officer in the office of the Governor. He previously served as Director of Revenue and Director of Administration-Finance & Economic Planning. Prior to joining the County Government, he served as an Accounts Assistant at the Institute of Advanced Technology (IAT) and further as an Accountant at the Worldwide Fund for Nature (WWF) before joining Bupo East Africa as Finance Manager. He also worked at the Rainforest Alliance (RA) as Regional Finance Manager East and Southern Africa. He is a member of the Institute of Certified Public Accountants of Kenya(ICPAK), Institute of Internal Auditors(IIA) and ISACA He holds a Master of Commerce degree from Strathmore University and a Bachelor's degree in Actuarial Science from University of Nairobi. He is a Certified Public Accountant (CPA) and Certified Secretary (CS) finalist. He holds a Strategic Leadership Development Course (SLDP), Senior Management Course (SMC) and Project Planning and Management from the Kenya School of Government.
Mr. Wilfred O. Auma- **Secretary**	**Mr. Wilfred O. Auma – CO Finance and Accounting services** Mr. Wilfred Auma heads the Finance and Accounting Services as a Chief Officer. Prior to his appointment, he headed the department of Planning and Economic Development. He holds a Masters Degree in Business Administration (Finance) from Kisii University, Bachelor of Commerce in Statistics, Accounting, Income Tax, Business Management and Auditing from Devi

	AlhilyaVishwavidValaya, Indore and a Higher National Diploma In Finance Analysis from Indian Management Training and Research Institute.
Mr. Chrispnus Ibalai- Chief Finance Officer.-Member	**MR.** Chrispnus Ibalai is the Chief Finance Officer Born in 1979. He holds MBA (Finance) and Bachelors of Commerce both from The University of Nairobi. In addition he is CPA (K) and a member of the Institute of Certified Public Accountant Kenya. He has more than 15 years of experience in various fields of senior management positions.
Mr. Duke Ondari Ongechi-Member	Mr. Duke Ondari Ongenchi is the Director Human Resource. He was born in 1963 and holds Bachelor of Arts Degree from the University of Nairobi. He has more than 33years experience in human resource matters. In addition he is member of the IHRM.
Mr.Vincent Ratemo-Member. 	Mr. Ratemo is the Secretary to the Public Service Board. He hold MBA (Accounting) and BCOM(Accounting) both from Kisii University. In addition he is CPAK and CPSK with both memberships of the institutes. He has more than 15 year experience in senior management positions.

3. Management Team

Name	Details of qualifications and experience
	Mr. Moses O. Onderi – CEC Finance and Economic Planning Mr.Moses Onderi heads the Finance and Economic Planning. Prior to his appointment, he headed the department of Lands, Housing and Physical Planning. He holds a Masters Degree in Education from University of Baroda, Bachelor of Education from Karnatak University, professional certificate in participatory monitoring, Evaluation and Impact Assessment from University of Wales Swansea and Higher Diploma in Human Resource Management. Until his appointment, he was working with CARE international in Kenya as Human Resource Coordinator.
	**Mr Patrick Lumumba- County Secretary and Head of County Public Service** Mr Patrick Lumumba is the County Secretary and Head of County Public Service. He previously served as Chief Officer for Administration, Corporate Services and Stakeholder Management in the Kisii County Government. Prior to joining the County Government, he worked in the Ministry of Industrialization and Enterprise Development rising to the level of Assistant Commissioner for Cooperatives. He has wide experience in cooperative development and management. He holds a Masters Degree in Strategic Management from Kabarak University, a Bachelors Degree in Public Administration from Panjab University (India) and a Diploma in Project & Agricultural Management in Rural Development Projects.

	**Mr. Wilfred O. Auma – CO Finance and Economic Planning** Mr. Wilfred Auma heads the Finance and Accounting Services as a Chief Officer. Prior to his appointment, he headed the department of Planning and Economic Development. He holds a Masters Degree in Business Administration (Finance) from Kisii University, Bachelor of Commerce in Statistics, Accounting, Income Tax, Business Management and Auditing from Devi AlhilyaVishwavidValaya, Indore and a Higher National Diploma In Finance Analysis from Indian Management Training and Research Institute. Until his appointment, he was working with Wakenya Pamoja Sacco Society Ltd as a manager in Business Growth Development.
	**Mr. John NyalajiNyandanyi** Mr. Nyandanyi was born on 10th November, 1974. He holds a Bachelor of Commerce degree in Finance. Further, he is a holder of CPA (K) and CPS (K). He has over 25 years working experience in Treasury Accounts department. He is currently the Deputy Chief Finance Officer.

4. KISII COUNTY LOANS AND MORTGAGES FUND COMMITTEE CHAIRPERSON'S REPORT

The Kisii County Loans and Mortgages Fund was established in the financial year 2015/2016. The principal objective was to advance loans and mortgage to executive committee members and also to the county employees. The fund has since been rolled in the financial year 2018/2019. Since inception, some of the key management team have changed office due to expiry of their term in office. Our banker Chase bank was later acquired by SBM. We are confident that with the new team which is committed to service delivery, the fund's objective will be met

.....

Mr. Moses O. Onderi

CECM Finance & Economic Planning-Chairperson

5. Report of The Fund Administrator

The Kisii County Loans and mortgages Fund was established in the financial year 2015/2016. The principal objective was to advance loans and mortgage to executive committee members and also to the county employees. The fund has since been rolled in the financial year 2018/2019. Since inception, some of the key management team have changed office due to expiry of their term in office. Our banker chase bank was later acquired by SBM. We are confident that with the new team which is committed to service delivery, the fund's objective will be met.

.....

Name: Wilfred Ochengo Auma

Fund Administrator

6. Statement of Performance Against the County Fund's Predetermined Objectives

Introduction

Kisii County executive had not provided a budgetary provision for Kisii Loans and Mortgages fund for the financial year 2021-2022.
However, the management committee had provided budgetary provision based on interest projections.
The fund's objective is to advance loans to qualified applicants from the Executive Committee Members and County employee.
During the financial year however, the fund's budget suffered a budget constrained, COVID-19 pandemic, low late of loans and mortgage applicants, posing major challenges for the administrator to fully implement the fund's objects.

Progress on attainment of Strategic development objectives

Program	Objective	Outcome	Indicator	Performance
Kisii county Loans and mortgages Fund	To advance loans to Executive committee member and county employee	Determining the increased number of applicants who desire to benefit from the funds kitty.	The percentage of applicants who have an interest of loans to be advanced to him or her	Kisii County loans and Mortgages continued to receive loan recoveries from the beneficiaries during the year and there was no loan applicants received.

7. Corporate Governance Statement

The roles and function of the Administration Committee members are set out in the Public Finance Management (Kisii County Loans and Mortgage Fund) Regulation 2015, Section 9. These includes

(a) to make recommendations with respect to the conditions under which a loan or a mortgage shall be granted or repaid under these regulations;

(b) to formulate sound policies for regulating the management of the Fund;

(c) to raise and solicit for funds and other assistance to promote the functions of the Committee;

(d) to receive any gifts, donations, grants or endowments made to Fund and to make legitimate disbursements there from;

(e) to establish links with financial institutions for the furtherance of the purposes for which the Fund is established

(f) to grant loans and mortgages, as the Committee may deem fit to eligible applicants upon recommendation of the Appraisal Committee;

G) to consider appeals from any applicant against any decision of the Loans Appraisal Fund Committee ; and

(h) to perform and exercise all other functions and powers conferred to the Committee by these Regulations or any other law.

8. Management Discussion and Analysis

Kisii County Loans and Mortgages Fund is established by and derives its authority and accountability from Section 116 (2) of the PFM Act, 2012 on 7thJanuary, 2016. The Fund is wholly owned by the County Executive of Kisii and is domiciled in Kenya. During the financial year the Kisii county executive had not provided budgetary allocation to Kisii County Loans and Mortgage fund. However, the management committee had provided budgetary provision based on interest projection.
The fund's objective is to advance loans and mortgages to the county executive committee members and employees of the County Government of Kisii.

The Kisii County Loans and Mortgages Fund prepare and submits it financial statement yearly to statutory bodies on time.

During the financial year however, the fund's budget suffered a budget constrained, COVID-19 pandemic, low late of loans and mortgage applicants, posing major challenges for the Administrator to fully implement the fund's objects

9. Environmental and Sustainability Reporting

1. Sustainability strategy and profile

Kisii County Loans and Mortgages Fund is established by and derives its authority and accountability from Section 116 (2) of the PFM Act, 2012 on 7thJanuary, 2016. The Fund is wholly owned by the County Executive of Kisii and is domiciled in Kenya and it's a going concern fund. During the financial year the Kisii county executive had not provided budgetary allocation to Kisii County Loans and Mortgage Fund

The fund's objective is to advance loans and mortgages to the county executive committee members and employees of the County Government of Kisii.

During the financial year however, the fund's budget suffered a budget constrained, COVID-19 pandemic, low late of loans and mortgage applicants, posing major challenges for the Administrator to fully implement the fund's objects

2. Employee welfare

The Kisii County Executive provides an opportunity to Executive committee members and employees through the Kisii county Loans and Mortgage fund regulation 2015 to access car loans and mortgages.

10. Report of the Fund Administration Committee

The Kisii Loans and Mortgage Fund Administrator, prepares and submit the report together with the audited financial statements for the year ended June 30, 2022, to the statutory bodies on time. This provides timely information which shows the state of the Fund affairs.

Principal activities

The principal activities of the Fund are to advance car loans and mortgage loans to the County executive committee members and employees of the County Government of Kisii.

Results

The results of the Fund for the year ended June 30, 2022 are set out on page 1 to 23

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to audit the Kisii County Executive Loans and Mortgages Fund for the year ended 30th June 2022.

11. Statement of Management's Responsibilities

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of Kisii County Loans and Mortgages Fund established by Section 3(1) of the Public Finance (Kisii County Loans and Mortgages Fund) Regulations, 2015 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 Kisii County Loans and Mortgages 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, 2022. 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 Kisii County Loans and Mortgages 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 Section 116 (7). 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, 2022, 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 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 8/11/ 2022 and signed on its behalf by:

Wilfred Ochengo Auma
Administrator of the Kisii County Loans and Mortgages Fund

REPUBLIC OF KENYA

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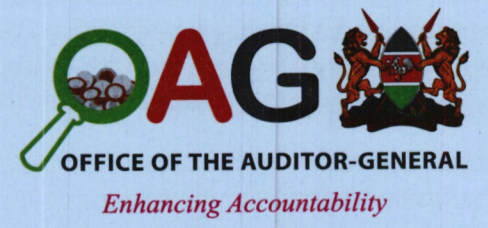

HEADQUARTERS
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KISII COUNTY LOANS AND MORTGAGES FUND FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kisii County Loans and Mortgages Fund set out on pages 1 to 23, which comprise of the statement of financial position as at 30 June, 2022 and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting

policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, 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 Kisii County Loans and Mortgages Fund as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance (Kisii County Loans and Mortgage Fund) Regulations, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Unconfirmed Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.41,764,892 which includes an amount of Kshs.7,250,000 transferred from a local bank to the Kenya Deposit Insurance Corporation. Review of records revealed that the Fund Management opened a bank account with Chase Bank in the financial year 2014/2015 for the operation of car and mortgage loans to the County Executive Committee Members (CECM) and staff members of the County. However, on 7 April, 2016, the bank was placed under receivership with the Kenya Deposit Insurance Corporation (KIDC) as Receiver Managers, and the total funds held by the bank amounting to Kshs.30,000,000 placed under moratorium.

Further, available information indicates that Management signed a Memorandum of Understanding with the bank as an Administrator of the Kisii County Loans and Mortgages Scheme on 9 April, 2018 after the bank had been placed in receivership. The bank transferred an amount of Kshs.7,250,000, being part of the funds under moratorium to KDIC on 15 August, 2018. Out of this amount, Kshs.500,000 was paid to the Fund on 6 December, 2022 after lodging a claim of the Kshs.7,250,000. However, no confirmation from KDIC to support the transfer was provided and no clear timelines on when the balance of Kshs.6,750,000 would be accessible for lending to the Funds' beneficiaries.

In the circumstances, the accuracy and existence of the amount of Kshs.7,250,000 and the reported balance of Kshs.41,764,892 as at 30 June, 2022 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kisii County Loans and Mortgages 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 were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Kisii County Loans and Mortgages Fund Regulations

During the year under review, the County Loans and Mortgages Fund did not seek Exchequer funding from the County Government as the Controller of Budget would not authorize withdrawal of such funds. This is because, the Public Finance (Kisii County Car Loans and Mortgages Fund) Regulations, 2015 were in conflict with the Constitution, Public Finance Management Act, 2012 and Salaries and Remuneration Commission Act, 2012. Review of the status in the financial year 2021/2022 revealed that the Regulations were yet to be harmonized as follows:

i. The regulations were not published in the Kenya gazette as required by the constitution.

ii. The Regulations do not provide for the procedures to be followed in winding up the Fund as required under the Section 116 (5) and (6) of the Public Finance Management Act, 2012.

iii. The Regulations do not provide for the maximum duration of the loan/ mortgage.

iv. The Regulations do not provide for the interest rates for the loan and mortgage.

v. The Regulations fail to provide for the maximum disbursement for the different cadres of staff.

vi. Regulation 20(3)(f) of the Public Finance (Kisii County Loan and Mortgage Fund) Regulations, 2015 provide that the security may be a logbook; a title deed; a share certificate; a life insurance policy, a chattels mortgage of machinery or other movable property or guarantee for guarantors. This is contrary to the SRC guidelines which require that the Security should be a lien on the motor vehicle or a charge on the property being purchased.

vii. The Regulations do not provide for the capping of the administrative expenses at 3% as required under Regulation 197(1)(d) of the Public Finance Management (County Government) Regulations, 2015.

In the circumstances, the Fund may not achieve its intended objectives.

2. Failure by Borrowers to Repay Loans on Time

The statement of financial position reflects long term receivables from exchange transactions balance of Kshs.3,235,108 in respect of unsettled loans which were overdue. This is contrary to Clause (d) of the County Fund Scheme Administration Agreement between Kisii County Government and Chase Bank Kenya Limited in receivership on Member's Car and Mortgage Fund Scheme, which requires all loans advanced under the scheme to be fully settled by 31 May, 2022.

In the circumstance, the Management was in breach of the County Fund Scheme Administration Agreement.

3. Failure to Maintain a Check-Off System for Loan Deductions

Audit review revealed that Kisii County Executive did not implement a salary check off system for loan recoveries. As a result, deductions amounting to Kshs.12,698,284 which comprises principal repayment and interest for the year under review were not remitted through the Executive's payroll system. Instead, the loan repayments were managed from the Bank, contrary to Clause 4.3 of the County Fund Scheme Administration Agreement, which requires Kisii County Government to manage the check off system and deduct all loan repayments and interest from the loanees as shall be advised by Chase Bank from time to time.

In the circumstance, the Management was in breach of the County Fund Scheme Administration Agreement and therefore the chances of loan defaults may increase.

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 processes

and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless 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.

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in

compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- 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 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 the 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

31 March, 2023

14. Statement of Financial Position As At 30 June 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash Equivalents	3	41,764,892	29,361,652
Total		**41,764,892**	**29,361,652**
Non-Current Assets			
Long Term Receivables from Exchange Transactions	4	3,235,108	15,638,348
Total Non-Current Assets		**3,235,108**	**15,638,348**
Total Assets		**45,000,000**	**45,000,000**
Net Assets			
Revolving Fund		45,000,000	45,000,000
Reserves		-	-
Accumulated Surplus		-	-
Total Net Assets		**45,000,000**	**45,000,000**

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 8/11/ 2022 and signed by:

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Name: Wilfred Ochengo Auma
Administrator of the Fund

.....

Name: John N. Nyandanyi
Fund Accountant
ICPAK Member Number:13733

13. Statement of Financial Performance For The Year Ended 30th June 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
Revenue From Exchange Transactions			
Interest Income	1	295,044	674,199
Total Revenue		**295,044**	**674,199**
Expenses			
Use of goods and services	2	295,044	674,199
Total Expenses		**295,044**	**674,199**
Surplus/(Deficit) For The Period		-	-

The notes set out on pages 17 to 18 form an integral part of these Financial Statements

.....
Name: Wilfred Ochengo Auma
Administrator of the Fund

.....
Name: John N. Nyandanyi
Fund Accountant
ICPAK Member Number:13733

15. Statement Of Changes in Net Assets for the year ended 30th June 2022

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		Kshs	Kshs	Kshs
Balance As At 1 July 2020	**45,000,000**	-	-	**45,000,000**
Surplus/(Deficit) For the Period	-	-	-	-
Funds Received During the Year	-	-	-	-
Transfers	-	-	-	-
Revaluation Gain	-	-	-	-
Balance As At 30 June 2021	**45,000,000**	-	-	**45,000,000**
Balance As At 1 July 2021	**45,000,000**	-	-	**45,000,000**
Surplus/(Deficit) For the Period	-	-	-	-
Funds Received During the Year	-	-	-	-
Transfers	-	-	-	-
Revaluation Gain	-	-	-	-
Balance As At 30 June 2022	**45,000,000**	-	-	**45,000,000**

.....
Name: Wilfred Ochengo Auma
Administrator of the Fund

.....
Name: John N. Nyandanyi
Fund Accountant
ICPAK Member Number:13733

16. Statement Of Cash Flows For The Year Ended 30 June 2022

	Note	2021-2022	2020-2021
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Interest received/Income	1	295,044	674,199
Total receipts		**295,044**	**674,199**
Payments			
Use of Goods and Services	2	295,044	674,199
Total Payments		**295,044**	**674,199**
Net cash flows from operating activities		-	-
Cash flows from investing activities			
Proceeds from loan principal repayments	5	12,403,240	12,554,485
Loan disbursements paid out		-	-
Net cash flows used in investing activities		**12,403,240**	**12,554,485**
Net increase/(decrease) in cash & cash Equivalents		**12,403,240**	**12,544,485**
Cash and cash equivalents at 1 July	3	29,361,652	16,807,167
Cash and cash equivalents at 30 June	3	**41,764,892**	**29,361,652**

.....

Name: Wilfred Ochengo Auma
Administrator of the Fund

.....

Name: John N. Nyandanyi
Fund Accountant
ICPAK Member Number:13733

17. Statement Of Comparison Of Budget And Actual Amounts For The Year Ended 30 June 2022

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% Utilisation
	2022	2022	2022	2022	2022	2022
Revenue	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**Kshs**	
Public Contributions And Donations	-	-	-	-	-	-
Transfers From County Govt.	-	-	-	-	-	-
Interest Income	300,000	-	300,000	295,044	4,956	98
Other Income	-	-	-	-	-	-
Total Income	**300,000**	**-**	**300,000**	**295,044**	**4,956**	**98**
Expenses						
Use of goods and Services	300,000	-	300,000	295,044	4,956	98
General Expenses	-	-	-	-	-	-
Finance Cost	-	-	-	-	-	-
Total Expenditure	**300,000**	**-**	**300,000**	**295,044**	**4,956**	**98**
Surplus For The Period	-	-	-	-	-	-

Budget notes

1. Kisii County Executive had no budgetary provision for Kisii County Loans and Mortgage Fund for the FY2021-2022
2. Kisii County Loans and Mortgage Fund committee had approved budget of Kshs 300,000 for the FY2021-2022

18. Notes to the Financial Statements

1. General Information

Kisii County Loans and Mortgages Fund is established by and derives its authority and accountability from Section 116 (2) of the PFM Act, 2012 on 7thJanuary, 2016. The Fund is wholly owned by the County Executive of Kisii and is domiciled in Kenya.
The fund's objective is to advance loans and mortgages to the county executive committee members and employees of the County Government of Kisii.

2. 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.

3. Adoption of new and revised standards

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2022

IPSASB deferred the application date of standards from 1st January 2022 owing to Covid 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2023.

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	**Applicable: 1st January 2023:** 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:

Standard	Effective date and impact:
	• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
IPSAS 42: Social Benefits	**Applicable: 1st January 2023** 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: (a) The nature of such social benefits provided by the Entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	**Applicable: 1st January 2023:** a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on

Standard	Effective date and impact:
	hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
Other improvements to IPSAS	***Applicable 1st January 2023*** • *IPSAS 22 Disclosure of Financial Information about the General Government Sector.* Amendments to refer to the latest System of National Accounts (SNA 2008). • *IPSAS 39: Employee Benefits* Now deletes the term composite social security benefits as it is no longer defined in IPSAS. • **IPSAS 29: Financial instruments: Recognition and Measurement** Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.
IPSAS 43	***Applicable 1st January 2025*** The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity. The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.

Standard	Effective date and impact:
IPSAS 44: Non-Current Assets Held for Sale and Discontinued Operations	***Applicable 1st January 2025*** The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.

3. Significant Accounting Policies

a) 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.

b) Budget information

The original budget for FY 2021-2022 was approved by the County Assembly on 30th June, 2021. 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 had no budgetary provision to be recorded and any additional appropriations during the FY 2021-2022

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 167 of the Public Finance Management Act, 2012 of these financial statements.

Summary of Significant Accounting Policies (Continued)

c) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

d) Intangible Assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

a) Financial instruments

Financial assets

Initial recognition and measurement

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

Loans and receivables

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

Summary of Significant Accounting Policies (Continued)

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Summary of Significant Accounting Policies (Continued)

b) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

c) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Summary of Significant Accounting Policies (Continued)

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

d) Nature and purpose of reserves

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

e) 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.

f) Employee benefits – Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

g) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

Summary of Significant Accounting Policies (Continued)

h) 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.

i) 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.

j) 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.

k) Comparative figures

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

l) Events after the reporting period

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

m) Ultimate and Holding Entity

The Kisii County Loans and Mortgage fund is a County Public Fund established by PFM Act, 2012 section 116(2) under the Ministry of finance and economic planning. Its ultimate parent is the County Government of Kisii.

n) Currency

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

Summary Of Significant Accounting Policies (Continued)

5. 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.

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

b) Useful lives and residual values

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

- 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

c) Provisions

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

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

6. Notes To The Financial Statements

1. Interest income

Description	2021-2022	2020-2021
	Kshs	Kshs
Interest Income From Mortgages and car Loans	295,044	674,199
Total Interest Income	**295,044**	**674,199**

Note: The current year interest of Kshs 295,044 is interest charged from lonees for mortgage and car loans advanced.

2. Use of Goods and Services

Description	2021/22	2020/21
	Kshs.	Kshs.
Bank and Administration Fees	295,044	674,199
Total	**295,044**	**674,199**

3. Cash and cash equivalents

Description	2021-2022	2020-2021
	Kshs	Kshs
Kisii County Loans and Mortgage Fund Account	41,764,892	29,361,562
Total Cash And Cash Equivalents	**41,764,892**	**29,361,562**

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

		2021-2022	2020-2021
Financial Institution	**Account number**	**Kshs**	**Kshs**
a) Current Account			
SBM Bank	0252322396001	41,764,892	29,361,562
Sub- Total		**41,764,892**	**29,361,562**

4. Receivables from exchange transactions

Description	2021-2022	2020-2021
	Kshs	Kshs
Non-Current Receivables		
Long Term Loan Repayments Due from beneficiaries	3,235,108	15,638,348
Total Non- Current Receivables	-	-
Total Receivables From Exchange Transactions	**3,235,108**	**15,638,348**

Notes To The Financial Statements (Continued)

5. Loan Repayment

Loan Ref.	2021-2022	2020/2021
025PULM182470001	2,486,897	2,637,059
025TELS183440001	1,172,421	1,137,813
025TELS191910001	1,179,496	1,144,679
025TELS191860001	5,477,208	5,315,531
025TELS192490001	994,368	1,160,939
025TELS192750001	1,092,850	1,158,463
Total	**12,403,240**	**12,554,485**

6. 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 Ministry of Finance and Economic Planning
c) County Assembly
d) Key management;
e) Fund Committee

Other Disclosures Continued

7. Financial risk management

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

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

a) Credit risk

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

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the entity's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount Kshs	**Fully performing Kshs**	**Past due Kshs**	**Impaired Kshs**
At 30 June 2022				
Receivables From Exchange Transactions	3,235,108	3,235,108	-	-
Bank Balances	41,764,892	41,764,892	-	-
Total	**45,000,000**	**45,000,000**	-	-
At 30 June 2021				
Receivables From Exchange Transactions	15,638,348	15,638,348	-	-
Bank Balances	29,361,652	29,361,652	-	-
Total	**45,000,000**	**45,000,000**	-	-

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

The Kisii County Loans and Mortgage has significant concentration of credit risk on amounts due from beneficiaries

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) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Fund Administrator, who has built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

c) Market risk

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

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Fund's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies.

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

i. Foreign currency risk

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

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

Foreign currency sensitivity analysis

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

ii. Interest rate risk

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

Management of interest rate risk

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

Sensitivity analysis

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

d) Capital risk management

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

	2021-2022	2020-2021
	Kshs	Kshs
Revaluation reserve	-	-
Revolving fund	45,000,00	45,000,000
Accumulated surplus	-	-
Total funds	**45,000,00**	**45,000,000**
Total borrowings	-	-
Less: cash and bank balances	41,764,892	29,361,652
Net debt/(excess cash and cash equivalents)	-	-
Gearing	93%	65%

19. Progress On Follow Up Of Prior Year Auditor's Recommendations

The following is the summary of issues raised by the Auditor-General in the prior year, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
REPORT ON THE FINANCIAL STATEMENTS				
Basis for Qualified Opinion				
	Unconfirmed Cash and Cash Equivalents Balance	The issue is being addressed since we received the Report of the Auditor-General late	Not resolved	30-Jun-22
Other Matter				
	Budgetary Control and Performance	The issue is being addressed since we received the Report of the Auditor-General late	Not resolved	30-Jun-22
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES				
	Kisii County Loans and Mortgages Fund Regulations	The issue is being addressed since we received the Report of the Auditor-General late	Not resolved	30-Jun-22