

REPUBLIC OF KENYA



Enhancing Accountability

REPORT
OF
THE AUDITOR-GENERAL

ON

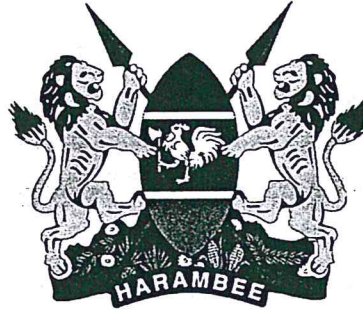
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TAITA TAVETA COUNTY ASSEMBLY
MORTGAGE SCHEME FUND

FOR THE YEAR ENDED
30 JUNE, 2020

**Taita Taveta County Assembly Mortgage Scheme Fund
Reports and Financial Statements
For the year ended 30th June, 2020**

Revised Template June 2020



**TAITA TAVETA COUNTY ASSEMBLY MORTGAGE SCHEME FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

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

**Taita Taveta County Assembly Mortgage Scheme Fund
Reports and Financial Statements
For the year ended 30th June, 2020**

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**Taita Taveta County Assembly Mortgage Scheme Fund
Reports and Financial Statements
For the year ended 30th June, 2020**

1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Taita Taveta County Assembly Mortgage Scheme is constituted as per the constitution of Kenya it's headed by the Speaker, who is responsible for the general policy and strategic direction of the County Assembly.

(b) Principal Activities

The principal activity/mission/ mandate of the Fund is to issue mortgage loans to Members of County Assembly and Staffs.

(c) Key Management

Name

Position



1. Hon. Harris Keke

Leader of Majority – Chairperson



2. Hon. Ronald Sagurani

Leader of Minority – Vice Chairperson



3. Hon. Godwin Kilele

MCA, Budget Committee – Chairperson

**Taita Taveta County Assembly Mortgage Scheme Fund
Reports and Financial Statements.
For the year ended 30th June, 2020**



4. Hon. Ibrahim Juma

MCA, Minority Whip - Member



5. Hon. Crispus Masaga

Deputy Speaker

(d) Registered Offices

County Assembly Headquarter
P.O. Box 1066 - 80304
Wundanyi, KENYA.

(e) Fund Contacts

Telephone: (254) 718703359 / 732604811
E-mail: informationdesk@taitatavetaassembly.go.ke
Website: www.taitatavetaassembly.go.ke

(f) Fund Bankers

1. Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya
2. Cooperative Bank of Kenya
P.O. Box 770 -80300
VOI, Kenya

**Taita Taveta County Assembly Mortgage Scheme Fund
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(g) Independent Auditors

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

(h) Principal Legal Adviser

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

**Taita Taveta County Assembly Mortgage Scheme Fund
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2. STATEMENT OF PERFORMANCE AGAINST COUNTY ENTITY'S PREDETERMINED OBJECTIVES

Introduction

Section 164 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each County Government entity Government entities in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the county government entity's performance against predetermined objectives.

The key development objectives of the Taita Taveta County Government Entity's 2018-2022 plan are to:

- a) Provide quality physical infrastructure in the County
- b) Ensure Equitable resources in the County
- c) Provide quality physical infrastructure in the County

Progress on attainment of Strategic development objectives

Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
Public Works, Roads & Transport	To develop and maintain roads and storm water drainage to global standards	Increased efficient transportation of people, goods and services	% of motorable and passable roads within the city	In FY 19/20 we increased motorable and passable roads by - % the following roads were upgraded -
Program 2	Objective	outcome	indicator	Performance

**Taita Taveta County Assembly Mortgage Scheme Fund
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3. MANAGEMENT TEAM

Name

Details of Qualifications and Experience



1. CPA Gadiel Mnyambo Maghanga

C.P.A, M.B.A, Undergraduate



2. CPA Joseph Waduu

C.P.A. Accountant, Undergraduate



3. Renson Peter Mambaria

M.B.A, Undergraduate



4. Fredrick Mwambili

LLB, Diploma Law (Kenya School of Law)

**Taita Taveta County Assembly Mortgage Scheme Fund
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4. BOARD/FUND CHAIRPERSON'S REPORT

The Taita Taveta County Assembly Mortgage Scheme fund is a revolving fund established pursuant to the Salaries and Remuneration Circular no SRC/ADM/CIR/1/13/ Vol III (128) of 17th December 2014. Section 167 of the Public Finance Management Act 2012 mandates the Administrator of Public Funds with preparation of Annual Financial Statements. For proper management of the fund, the Taita Taveta County Assembly adopted Public Finance Management (Taita Taveta County Assembly Mortgage Scheme Fund) Regulations 2014 to guide operationalization of the Fund.

The Fund started its operations in 2015 following the gazettelement of the Taita Taveta County Assembly Mortgage Scheme regulation 2015. It received an initial amount of Ksh.3M. The Salaries and Remuneration Commission in its circular ref SRC/ADM/CIR/1/13 Vol.III (128) dated 17 December 2014 provided guidelines for access of Car Loan and Mortgage benefits by all state and public officers. Arising therefrom the County Assembly Committee Members approved and adopted the Staff Loans Policy Paper on 14th September 2015. In the FY 2015/2016 the Fund Committee Members approved and adopted the guidelines on internal administration of the Mortgage Scheme Fund.

Conclusion

FY 2019/2020 is a good year in general. Good progress is made and the momentum has been created to enable Taita Taveta County Assembly Mortgage Scheme Fund continues on a trajectory into prosperity. We have identified gaps and areas to improve on in this year. I take this opportunity to thank the Hon Speaker and Members of County Assembly for their support. I would also want to thank my colleagues, All Heads in charge of other departments who we have worked hand in hand to ensure that Taita Taveta County Assembly achieves its mission.

I thank all staff in the entire County for their continued commitment and dedication through hard work in delivering services to the people of Taita Taveta County.



Clerk of the County Assembly

**Taita Taveta County Assembly Mortgage Scheme Fund
Reports and Financial Statements
For the year ended 30th June, 2020**

5. REPORT OF THE FUND ADMINISTRATOR

It is my pleasure to present the Taita Taveta County Assembly Mortgage Scheme Fund Financial Statements for the year ended 30th June 2019. The financial statements present the financial performance of the fund over the past year.

The fund was established on 14th September 2015 and started with an initial amount of KShs 3M and a further KShs 7.5 M was Budgeted for in the period under reporting.

Financial Performance

a) Revenue

In the year ended 30th June 2020, the fund had projected revenues of KShs Fifteen (15) Million consisting of Transfers from County Govt (Exchequer Issue). Due to cash flow challenges, the fund didn't realise its full budget.

b) Loans

During the financial year 2019/2020, the fund had disbursed 22 Loans totalling to Kshs 41,950,000

c) Cash flows

In the FY 2019/2020, the cash and cash equivalents decreased to KShs 194,113 as at 30th June 2020 from KShs 1,888,391 as at 30th June 2019.

d) Conclusion

I take this opportunity to thank the Fund Committee Members for their support. I would also want to thank all staff who we have worked hand in hand to ensure that Taita Taveta County Assembly Mortgage scheme fund achieves its mission.

Signed:  _____

Fund Administrator – Mortgage Fund

6. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the system of rules and institutions that determine the control and direction of the corporation and that define relations among the corporation's primary participants. It is the mechanisms that are used to "govern" managers to ensure that the actions they take are consistent with the interests of key stakeholder. The governance framework determines whom the organisation is there to serve and how the purposes and priorities of the organisation should be decided. It is concerned with both the functioning of the organisation and the distribution of power aiming at different stakeholders. In addition to shareholders, lots of other people are affected by the company and have a stake in how it behaves.

The company ought to take its various interests into account alongside those of shareholders in all its activities. They can be regarded as investing in it each in their own way, whether through their capital, their work lives, their purchasing loyalty, or their local support and infrastructure.

Broadly speaking, corporate governance generally refers to the processes by which organisations are directed, controlled and held accountable. It encompasses authority, stewardship, leadership, direction and control exercised in companies and corporations. Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the top of organisations. The bottom line is about power, how it's used and controlled.

**Taita Taveta County Assembly Mortgage Scheme Fund
Reports and Financial Statements
For the year ended 30th June, 2020**

7. MANAGEMENT DISCUSSION AND ANALYSIS

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a Taita Taveta County Assembly Mortgage Scheme Fund established by The Taita Taveta County Assembly Gazette Supplementary No. 16, shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

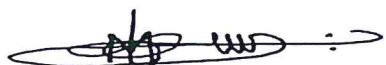
The Administrator of the Fund is responsible for the preparation and presentation of the Taita Taveta County Assembly Mortgage Scheme Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2020. This 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 Fund accepts responsibility for the Taita Taveta County Assembly Mortgage Scheme 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 Taita Taveta County Assembly Gazette Supplementary No. 16. The Administrator of the Fund is of the opinion that the Taita Taveta County Assembly Mortgage Scheme 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 Taita Taveta County Assembly Mortgage Scheme 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 Taita Taveta County Assembly Mortgage Scheme Fund's financial statements were approved on 2nd December, 2020 and signed on its behalf by:



Fund Administrator-Mortgage Fund

**Taita Taveta County Assembly Mortgage Scheme Fund
Reports and Financial Statements
For the year ended 30th June, 2020**

8. 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 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. 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

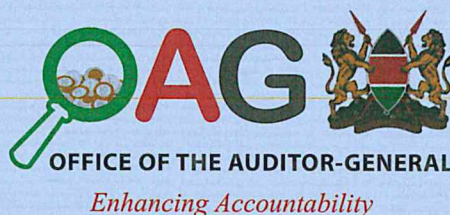
The Fund's financial statements were approved by the Board on 2nd December, 2020 and signed on its behalf by:



Administrator of the County Public Fund

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON TAITA TAVETA COUNTY ASSEMBLY MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Taita Taveta County Assembly Mortgage Scheme Fund set out on pages 13 to 47, which comprise the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of the Taita Taveta County Assembly Mortgage Scheme 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 the Taita Taveta County Assembly Mortgage Scheme Fund (Regulations), 2020 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The financial statements contained inaccuracies as detailed below:

- 1.1 The statement of changes in net assets for the year ended 30 June, 2020 reflects revaluation loss of Kshs.637,555 (2018/2019 – Loss: Kshs.326,487). However, the loss has not been explained or supported.
- 1.2 The statement of financial performance for the year ended 30 June, 2020 reflects comparative interest income of Kshs.2,283,507 while the comparative figure as per Note 4 to the financial statements is Kshs.2,752,769, resulting to a variance of Kshs.469,262, being accrued interest omitted from the financial statements.

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June, 2020 could not be confirmed.

2. Proceeds from Loan Principal Repayments

The statement of cash flows for the year ended 30 June, 2020 reflects proceeds from loan principal repayments balance of Kshs.23,431,583. However, the loans movement schedule availed for audit reflects a figure of Kshs.23,687,639, resulting in unexplained and un-reconciled variance of Kshs.256,056.

Consequently, the accuracy and completeness of proceeds from loan principal repayments figure of Kshs.23,431,583 for the year ended 30 June, 2020 could not be confirmed.

3. Receivables from Exchange Transactions

As previously reported, the statement of financial position as at 30 June, 2020 reflects current portion of long-term receivables from exchange transactions balance of Kshs.37,886,321 and long-term receivables from exchange transactions balance of Kshs.93,668,743, all totalling to Kshs.131,555,064 (2018/2019 – Kshs.113,502,818) as disclosed in Note 12 to the financial statements. However, current portion of long-term receivables from exchange transactions balance includes Kshs.11,203,664 in respect of loans owed by eight (8) beneficiaries who have defaulted in repayments. Further, evidence of joint registration of houses purchased in the name of the members of Taita Taveta County Assembly Mortgage Scheme Fund was not provided for audit verification.

In the circumstance, the accuracy and recoverability of the receivables from exchange transactions balance of Kshs.131,555,064 as at 30 June, 2020 could not be confirmed.

4. Current Portion of Borrowings

The statement of financial position as at 30 June, 2020 reflects current portion of borrowings balance of Kshs.3,081,649 as disclosed in Note 20 to the financial statements. As disclosed in the same note, Management borrowed Kshs.3,950,000 in year 2017/218 and another Kshs.1,000,000 in the year 2018/2019 all totaling to Kshs.4,950,000 while they repaid Kshs.1,868,351 during the year under review. However, bank statements and receipts to confirm the repayment were not provided for audit verification.

In the circumstances, the validity and accuracy of the current portion of borrowing balance of Kshs.3,081,649 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Taita Taveta County Assembly Mortgage Scheme Fund 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.

Other Matter

1.0 Budgetary Control and Performance

The statement of comparative budget and actual amount reflects final receipt budget and actual on comparable basis of Kshs23,300,000 and Kshs.22,147,567 respectively resulting to an underfunding of Kshs.1,152,433 or 5% of the budget.

Similarly, the actual expenditure reflects a balance of Kshs.44,701,380 against an approved budget of Kshs.48,100,000 resulting to an under expenditure of Kshs.3,398,620 or 7% of the budget.

The underfunding and under expenditure may increase with time therefore likely to affect the planned activities and impact negatively on service delivery to the citizen.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Uncharged Loan Disbursements

The statement of cash flows for the year ended 30 June, 2020 reflects loan disbursements of Kshs.41,950,000 (2018/2019 – Kshs.49,150,000). However, evidence of the properties purchased having a charge registered in the name of the Board and the names entered on title documents for the properties were not provided for audit verification. This is contrary to Part III Section 15(1) of the Taita Taveta County Assembly Mortgage Scheme Fund (Regulations), 2020 which states that “the Board shall have a charge registered on the property financed through a loan granted under this regulation and shall have its name entered on all the documents of title for such property”.

Consequently, the ownership of the properties purchased and the validity of loan disbursements of Kshs.41,950,000 for the year ended could not be confirmed. Further, the Fund is in breach of the Law and regulations governing issuance of mortgage.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1)(a) of the Public Audit Act, 2015, based on the procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Failure to Develop a Risk Management Strategy

As previously, reported, the Board did not develop risk management strategies. Without a risk management strategy, the Board may not be effective in managing a robust business operation of the Fund. This is contrary to Section 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that 'the Accounting Officer shall ensure that (a) the county government entity develops risk management strategies, which include fraud prevention mechanism; and (b) the county government entity develops a system of risk management and internal control that builds robust business operations.

Consequently, the management did not comply with the Law and regulations governing operations of the Fund.

2. Failure to Maintain a Mortgage Protection and Fire Insurance Policies

As previously reported, Management has not developed mortgage protection and fire policies with an insurance firm approved by the financier, contrary to Part III Section 16(1) of The Taita Taveta County Assembly Mortgage Scheme Fund (Regulations), 2020 which states that "A borrower shall take out and maintain a mortgage protection policy and a fire policy with an insurance firm approved by the Board". Failure to develop these policies is contrary to the Law and exposes the Fund to risk of loss in case of death or total disability of the borrower.

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 maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall 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 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 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 Fund's financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

10 February, 2022

**Taita Taveta County Assembly Mortgage Scheme Fund
Reports and Financial Statements
For the year ended 30th June, 2020**

10. FINANCIAL STATEMENTS

**10.1 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED
30TH JUNE 2020**

	Note	2019/2020	2018/2019
		KShs	KShs
Revenue from non-exchange transactions			
Public contributions and donations	1	-	-
Transfers from the County Government	2	-	-
Fines, penalties and other levies	3	-	-
		-	-
Revenue from exchange transactions			
Interest income	4	3,597,567	2,283,507
Other income	5	-	-
		-	-
Total revenue		3,597,567	2,283,507
Expenses			
Fund administration expenses	6	1,216,800	1,346,100
General expenses	8	1,534,580	26,740
Finance costs	9	-	-
Total expenses		2,751,380	1,372,840
Other gains/losses			
Gain/loss on disposal of assets	10		-
Surplus/(deficit) for the period		846,187	910,667

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 2nd December, 2020 and signed by:



Clerk of the Assembly



Fund Administrator– Mortgage Fund

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10.2 STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019/2020	2018/2019
		KShs	KShs
Assets			
Current assets			
Cash and cash equivalents	11	194,113	1,888,391
Current portion of long- term receivables from exchange transactions	12	37,886,321	33,346,687
Prepayments	14	1,500,000	915,934
Inventories	15	-	-
Non-current assets			
Property, plant and equipment	16	-	-
Intangible assets	17	-	-
Long term receivables from exchange transactions	12	93,668,743	80,156,131
Total assets		133,249,177	116,307,143
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	18	51,754	-
Provisions	19	-	-
Current portion of borrowings	20	3,081,649	4,950,000
Employee benefit obligations	21	-	-
Non-current liabilities			
Non-current employee benefit obligation	21	-	-
Long term portion of borrowings	20	-	-
Total liabilities		3,133,403	4,950,000
Net assets		130,115,774	111,357,143
Revolving Fund		126,495,000	107,945,000
Reserves		230,009	867,564
Accumulated surplus		3,390,765	2,544,578
Total net assets and liabilities		130,115,774	111,357,142

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 2nd December, 2020 and signed by:



Administrator of the Fund



Fund Accountant

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10.3 STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2020

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2018	85,000,000.0	1,194,051.0	1,633,911.0	87,827,962.0
Surplus/(deficit) for the period	-	-	910,667.0	910,667.0
Funds received during the year	22,945,000.0	-	-	22,945,000.0
Revaluation gain	-	(326,487.0)	0.0	(326,487.0)
Balance as at 30 June 2019	107,945,000.0	867,564.0	2,544,578.0	111,357,142.0
Balance as at 1 July 2019	107,945,000	867,564	2,544,578	111,357,142
Surplus/(deficit) for the period			846,187	846,187
Funds received during the year	18,550,000			18,550,000
Revaluation gain		(637,555)		(637,555)
Balance as at 30 June 2020	126,495,000	230,009	3,390,765	130,115,774

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 2nd December, 2020 and signed by:



Clerk of the Assembly



Fund Administrator– Mortgage Fund

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10.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019/2020 KShs	2018/2019 KShs
Cash flows from operating activities			
Receipts			
Public contributions and donations	1		
Transfers from the County Government	2		
Interest received	4	2,893,870	2,283,507
Receipts from other operating activities			
Total Receipts		2,893,870	2,283,507
Payments			
Fund administration expenses	6	1,216,800	1,346,100
General expenses	8	1,534,580	26,740
Finance cost	9	-	-
Total Payments		2,751,380	1,372,840
Adjusted for:			
Decrease/(Increase) in Accounts receivable: (outstanding imprest)		-	-
Increase/(Decrease) in Accounts Payable: (deposits and retention)		-	-
Net cash flows from operating activities		142,490	910,667
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		-	-
Proceeds from sale of property, plant and equipment		-	-
Proceeds from loan principal repayments	25	23,431,583	25,231,322
Loan disbursements paid out	26	- 41,950,000	- 49,150,000
Net cash flows used in investing activities		- 18,518,417	- 23,918,678
Cash flows from financing activities			
Proceeds from revolving fund receipts	13	18,550,000	22,945,000
Additional borrowings	20	-	1,000,000
Repayment of borrowings	20	- 1,868,350	-
Net cash flows used in financing activities		16,681,650	23,945,000
Net increase/(decrease) in cash and cash equivalents		- 1,694,277	936,989
Cash and cash equivalents at 1 JULY	11	1,888,391	951,402
Cash and cash equivalents at 30 JUNE	11	194,114	1,888,391

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**10.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED
30TH JUNE 2020**

	Budget	Actual	Variance	Actual	Variance	%
	KShs	KShs	KShs	KShs	KShs	
Revenue						
Public contributions and donations	-	-	-	-	-	0%
Transfers from Treasury	15,000,000	- 7,500,000	7,500,000	7,500,000	-	100%
Transfer from Car loan Fund	12,000,000	-	12,000,000	11,050,000	950,000	92%
Interest income	3,800,000	-	3,800,000	3,597,567	202,433	95%
Total income	30,800,000	- 7,500,000	23,300,000	22,147,567	1,152,433	95%
Expenses						
Fund administration expenses	1,500,000	-	1,500,000	1,216,800	283,200	81%
General expenses	1,600,000	-	1,600,000	1,534,580	65,420	96%
Loans disbursed	45,000,000	-	45,000,000	41,950,000	3,050,000	93%
Total expenditure	48,100,000	-	48,100,000	44,701,380	3,398,620	93%
Surplus for the period	- 17,300,000	- 7,500,000	- 24,800,000	- 22,553,813	- 2,246,187	91%

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 2nd December, 2020 and signed by:



Clerk of the Assembly



Fund Administrator-Mortgage Fund

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10.6 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 2020

Standard	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 are covered purely under Public Sector combinations as amalgamations.

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

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

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Standard	Effective date and impact:
	<ul style="list-style-type: none"> • 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	<p>Applicable: 1st January 2022</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the entity; (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.</p>
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<p>Applicable: 1st January 2022:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>
Other Improvements to IPSAS	<p>Applicable: 1st January 2021:</p> <p>a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks</p> <p>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property,</p>

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Standard	Effective date and impact:
	Plant, and Equipment and IPSAS 31, Intangible Assets. d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard
	IPSAS 40, Public Sector Combinations. Amendments to include the effective date paragraph which were inadvertently omitted when IPSAS 40 was issued

(c) Early adoption of standards

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

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

ii) Revenue from exchange transactions

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

4. Budget information

The original budget for FY 2019/2020 was approved by the County Assembly on 10th June, 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

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 on these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Property, plant and equipment

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

6. Intangible assets

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

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

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

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)

8. Inventories

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

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

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

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

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

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

9. Provisions

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

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

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

Contingent liabilities

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.

10. Nature and purpose of reserves

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

11. Changes in accounting policies and estimates

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

12. Employee benefits – Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate 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.

13. Foreign currency transactions

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

15. Related parties

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

16. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at 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.

17. Comparative figures

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

18. Events after the reporting period

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

19. Ultimate and Holding Entity

The entity is a County Public Fund established by Finance Act under the Ministry of Finance.

20. Currency

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

21. Significant judgments and sources of estimation uncertainty

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

State all judgements, estimates and assumptions made:

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.

22. 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

23. Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note xxx.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

24. 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 2019				
Receivables from exchange transactions	-	-	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	-	-	-	-
Total	-	-	-	-
At 30 June 2018				
Receivables from exchange transactions	-	-	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	-	-	-	-
Total	-	-	-	-

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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 entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of trustees sets the Fund's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

b) Liquidity Risk Management

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

The table below represents cash flows payable by the Fund under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	KShs	KShs	KShs	KShs
At 30 June 2019				
Trade payables	-	-	-	-
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Employee benefit obligation	-	-	-	-
Total	-	-	-	-
At 30 June 2018				
Trade payables	-	-	-	-
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Employee benefit obligation	-	-	-	-
Total	-	-	-	-

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Market Risk

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

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

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

There has been no change to the 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:

		Other currencies	Total
	KShs	KShs	KShs
At 30 June 2019			
Financial assets	-	-	-
Investments	-	-	-
Cash	-	-	-
Debtors/ receivables			
Liabilities			
Trade and other payables	-	-	-
Borrowings	-	-	-
Net foreign currency asset/(liability)	-	-	-

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency sensitivity analysis

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

	Change in currency rate	Effect on surplus/ deficit	Effect on equity
	KShs	KShs	KShs
2020			
Euro	10%	-	-
USD	10%	-	-
2019			
Euro	10%	-	-
USD	10%	-	-

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.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs - (2020: KShs -). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs - (2019 – KShs -)

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

	2019/2020	2018/2019
	KShs	KShs
Revaluation reserve	-	-
Revolving fund	-	-
Accumulated surplus	-	-
Total funds	-	-
Total borrowings	-	-
Less: cash and bank balances	(-)	(-)
Net debt/(excess cash and cash equivalents)	-	-
Gearing	-%	-%

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10.7 NOTES TO THE FINANCIAL STATEMENTS

1. Public contributions and donations

Description	2019/2020	2018/2019
	KShs	KShs
Donation from development partners	-	-
Contributions from the public	-	-
Total	-	-

2. Transfers from County Government

Description	2019/2020	2018/2019
	KShs	KShs
Transfers from County Govt. – Treasury	7,500,000.00	22,945,000
Total	7,500,000.00	22,945,000

3. Fines, penalties and other levies

Description	2019/2020	2018/2019
	KShs	KShs
Late payment penalties	-	-
Fines	-	-
Total	-	-

4. Interest income

Description	2019/2020	2018/2019
	KShs	KShs
Interest income from Mortgage loans	2,893,870.24	2,283,507.33
Interest Accrued from Loans (Mortgage)	703,696.75	469,261.72
Interest income from car loans		
Interest income from investments	-	-
Interest income on bank deposits	-	-
Total interest income	3,597,566.99	2,752,769.05

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5. Other income

Description	2019/2020	2018/2019
	KShs	KShs
Insurance recoveries	-	-
Income from sale of tender documents	-	-
Miscellaneous income		
Total other income	-	-

6. Fund administration expenses

Description	2019/2020	2018/2019
	KShs	KShs
Staff costs (Note 7)	1,216,800	1,346,100
Loan processing costs		-
Professional services costs	-	-
Administration fees	-	-
Total	1,216,800	1,346,100

7. Staff costs

Description	2019/2020	2018/2019
	KShs	KShs
Salaries and wages	-	-
Staff gratuity	-	-
Staff training expenses	-	-
Social security contribution	-	-
Other staff costs	-	-
Total	-	-

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. General expenses

Consumables	-	-
Electricity and water expenses	-	-
Fuel and oil costs	-	-
Insurance costs	1,500,000.00	-
Postage	-	-
Printing and stationery	-	-
Rental costs	-	-
Security costs	-	-
Telecommunication	-	-
Bank Charges	34,580.00	26,740.00
Hospitality	-	-
Depreciation and amortization costs	-	-
Other expenses	-	-
Total	1,534,580.00	26,740.00

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Finance costs

Description	2019/2020	2018/2019
	KShs	KShs
Interest on Bank overdrafts	-	-
Interest on loans from banks	-	-
Total	-	-

10. Gain/(loss) on disposal of assets

Description	2019/2020	2018/2019
	KShs	KShs
Property, plant and equipment	-	-
Intangible assets	-	-
Total	-	-

11. Cash and cash equivalents

Description	2019/2020	2018/2019
	KShs	KShs
Car loan account	-	-
Taita Taveta County Assembly Mortgage Sc	194,112.80	1,888,390.50
Fixed deposits account	-	-
On – call deposits	-	-
Current account	-	-
Others	-	-
Total cash and cash equivalents	194,112.80	1,888,390.50

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

a) Fixed deposits account			
Kenya Commercial bank		-	-
Equity Bank, etc		-	-
Sub- total		-	-
b) On - call deposits			
Kenya Commercial bank		-	-
Equity Bank - etc		-	-
Sub- total		-	-
c) Current account			
Cooperative Bank -Mortgage		194,112.80	1,888,390.50
Bank B		-	-
Sub- total		-	-
d) Others(specify)			
Cash in transit		-	-
Cash in hand		-	-
M Pesa		-	-
Sub- total		-	-
Grand total		194,112.80	1,888,390.50

12. Receivables from exchange transactions

Current Receivables		
Interest receivable	703,696.75	469,261.72
Current loan repayments due	37,182,624.23	32,877,425.31
Receivable from treasury erroneous reverse		
Other exchange debtors	-	-
Less: impairment allowance	-	-
Total Current receivables	37,886,320.98	33,346,687.03
Non-Current receivables		
Long term loan repayments due	93,668,743.06	80,156,131.02
Total Non- current receivables	93,668,743.06	80,156,131.02
Total receivables from exchange transactions	131,555,064.03	113,502,818.05

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Additional disclosure on interest receivable

Interest receivable		
Interest receivable from current portion of long-term loans of previous years		
Accrued interest receivable from of long-term loans of previous years		
Interest receivable from current portion of long-term loans issued in the current year		
Current loan repayments due		
Current portion of long-term loans from previous years		
Accrued principal from long-terms loans from previous periods		
Current portion of long-term loans issued in the current year		

13. Revenue from Non-Exchange transaction

	KShs	KShs
Description	2019/2020	2018/2019
	KShs	KShs
Transfers from County Govt. – Treasury	7,500,000	22,945,000
Transfers from Car loan Fund . – TTCA	11,050,000	
Total	18,550,000.00	22,945,000

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Prepayments

Description	2019/2020	2018/2019
	KShs	KShs
Prepaid rent	-	-
Prepaid insurance	1,500,000	915,934
Prepaid electricity costs	-	-
Other prepayments(specify)	-	-
Total	1,500,000	915,934

15. Inventories

Description	2019/2020	2018/2019
	KShs	KShs
Consumable stores	-	-
Spare parts and meters	-	-
Catering	-	-
Other inventories(specify)	-	-
Total inventories at the lower of cost and net realizable value	-	-

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Property, plant and equipment

	Land and Buildings	Motor vehicles	Furniture and fittings	Computers and office equipment	Total
	KShs	KShs	KShs	KShs	KShs
Cost					
At 1 st July 2018	-	-	-	-	-
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfers/adjustments	-	-	-	-	-
At 30 th June 2019	-	-	-	-	-
At 1 st July 2019					
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-
At 30 th June 2020	-	-	-	-	-
Depreciation and impairment					
At 1 st July 2018	-	-	-	-	-
Depreciation	-	-	-	-	-
Impairment	-	-	-	-	-
At 30 th June 2019	-	-	-	-	-
At 1 st July 2019					
Depreciation	-	-	-	-	-
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-
At 30 th June 2020	-	-	-	-	-
Net book values					
At 30 th June 2019	-	-	-	-	-
At 30 th June 2020	-	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Intangible assets-software

Description	2019/2020	2018/2019
	KShs	KShs
Cost		
At beginning of the year	-	-
Additions	-	-
At end of the year	-	-
Amortization and impairment		
At beginning of the year	-	-
Amortization	-	-
At end of the year	-	-
Impairment loss	-	-
At end of the year	-	-
NBV	-	-

18. Trade and other payables from exchange transactions

Description	2019/2020	2018/2019
	KShs	KShs
Trade payables (overpayment by staff/mca loan)	51,753.84	-
Refundable deposits		-
Accrued expenses		-
Other payables (erronious deposit by executive)	-	-
Total trade and other payables	51,753.84	-

19. Provisions

Description	Leave provision	Bonus provision	Other provision	Total
	KShs	KShs	KShs	KShs
Balance at the beginning of the year(1.07.2018)	-	-	-	-
Additional Provisions	-	-	-	-
Provision utilised	-	-	-	-
Change due to discount and time value for money	-	-	-	-
Transfers from non -current provisions	-	-	-	-
Balance at the end of the year (30.06.2019)	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Borrowings

Description	2019/2020	2018/2019
	KShs	KShs
Balance at beginning of the period	4,950,000.00	3,950,000.00
External borrowings during the year	-	-
Domestic borrowings during the year	-	1,000,000.00
Repayments of external borrowings during the period	-	-
Repayments of domestic borrowings during the period	1,868,351.00	-
Balance at end of the period	3,081,649.00	4,950,000.00

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

	2019/2020	2018/2019
	KShs	KShs
External Borrowings		
Dollar denominated loan from 'xxx organisation'	-	-
Sterling Pound denominated loan from 'yyy organisation'	-	-
Euro denominated loan from zzz organisation'	-	-
Domestic Borrowings		
Kenya Shilling loan from KCB	-	-
Kenya Shilling loan from Barclays Bank	-	-
Kenya Shilling loan from Consolidated Bank	-	-
Borrowings from other government institutions	3,081,649.00	4,950,000.00
Total balance at end of the year	3,081,649.00	4,950,000.00

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

Description	2019/2020	2018/2019
	KShs	KShs
Short term borrowings(current portion)	3,081,649.00	4,950,000.00
Long term borrowings	0	0
Total	3,081,649.00	4,950,000.00

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Employee benefit obligations

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Cash generated from operations

	2019/2020	2018/2019
	KShs	KShs
Surplus/ (deficit) for the year before tax	-	-
Adjusted for:		
Depreciation	-	-
Amortisation	-	-
Gains/ losses on disposal of assets	(-)	(-)
Interest income	(-)	(-)
Finance cost	-	-
Working Capital adjustments		
Increase in inventory	(-)	(-)
Increase in receivables	(-)	(-)
Increase in payables	-	-
Net cash flow from operating activities	-	-

23. 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:

- i) The County Government;
- ii) The Parent County Government Ministry;
- iii) Key management;
- iv) Board of Trustees; etc

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Related party transactions

	2019/2020	2018/2019
	KShs	KShs
Transfers from related parties'	-	-
Transfers to related parties	-	-

c) Key management remuneration

	2019/2020	2018/2019
	KShs	KShs
Board of Trustees	-	-
Key Management Compensation	-	-
Total	-	-

d) Due from related parties

	2019/2020	2018/2019
	KShs	KShs
Due from parent Ministry	-	-
Due from County Government	-	-
Total	-	-

e) Due to related parties

	2019/2020	2018/2019
	KShs	KShs
Due to parent Ministry	-	-
Due to County Government	-	-
Due to Key management personnel	-	-
Total	-	-

24. Contingent assets and contingent liabilities

Contingent liabilities	2019/2020	2018/2019
	KShs	KShs
Court case xxx against the Fund	-	-
Bank guarantees	-	-
Total	-	-

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25. Proceeds from Loan Principal Repayments

		FY2019/2020	FY2018/2019
		KShs	KShs
	Total Loan repaid	26,325,453	25,231,322
	less: Interest received	(2,893,870)	
	Total	23,431,583	25,231,322

26. Loan Disbursements Paid Out

	FY2019/2020	FY2018/2019
	KShs	KShs
Loan disbursements paid out	41,950,000	49,150,000
Total	41,950,000	49,150,000

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

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	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)
1.0	Presentation of the Financial Statements		Joseph Waduu	Resolved	30 th June 2020
2.0	Outstanding Loan Balance		Joseph Waduu	Resolved	30 th June 2020