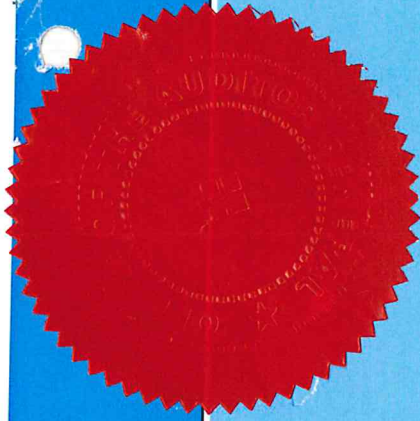


REPUBLIC OF KENYA



Enhancing Accountability



| PAPERS LAID | |
|--------------------|------------------|
| DATE | 10/11/22 |
| TABLED BY | Son. Maganyi WMP |
| COMMITTEE | |
| CLERK AT THE TABLE | S. Njaka |

REPORT

OF

THE AUDITOR-GENERAL

ON

**VIHIGA COUNTY ASSEMBLY MEMBERS
AND STAFF MORTGAGE AND CAR LOANS
SCHEME FUND**

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



**VIHIGA COUNTY GOVERNMENT
VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF
MORTGAGE AND CAR LOANS SCHEME FUND**

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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



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Reports and Financial Statements
For the year ended June 30 2021

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**VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR
LOANS SCHEME FUND**

Reports and Financial Statements
For the year ended June 30 2021

d) Key Management

| Ref | Position | Name |
|-----|-----------------------------|----------------------|
| 1 | Fund Manager/ Administrator | Ambaka Kilinga |
| 2 | Principal Finance Officer | Oscar Miyinzi Jagona |
| 3 | Principal Legal Counsel | Francis Rakewa |
| 4 | Fund Accountant | Stephen Masambu |

e) Fiduciary Oversight Arrangements

| Ref | Position | Name |
|-----|---|---------------------------------|
| 1 | Public Accounts and Investments Committee | Hon Jackline Mwenesi (Chairman) |
| 2 | Audit Committee | Cpa Nebert Avutswa (Chairman) |

f) Registered Offices

P.O. Box 90 50300

Clerk's Chambers

Assembly Headquarters

Maragoli, Kenya

g) Fund Contacts

Telephone: (254) 020 2094140

E-mail: vihigaassembly@gmail.com

Website: www.vihigacountyassembly.go.ke

h) Fund Bankers

The cooperative bank of Kenya

Mbale Branch

P O Box 816 50300

Maragoli, Kenya

**VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR
LOANS SCHEME FUND**

Reports and Financial Statements
For the year ended June 30 2021

...

i) Independent Auditors

Auditor General

Office of The Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

j) Principal Legal Adviser

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112


City Square 00200

Nairobi, Kenya

VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR LOANS SCHEME FUND

Reports and Financial Statements
For the year ended June 30 2021

2. FUND ADMINISTRATION COMMITTEE

| Name | Details of qualifications and experience |
|--|--|
| <p data-bbox="199 488 481 521">Joab Ambaka Kilinga</p>  A black and white portrait of Joab Ambaka Kilinga, a middle-aged man with glasses, wearing a suit and tie. He is looking directly at the camera with a neutral expression. | <p data-bbox="742 488 1340 629">Born in 1962, Bachelor of Education in Economics & Business Studies from Kenyatta University</p> <p data-bbox="742 651 1340 792">Executive Master's degree in Education , Leadership and Policy Management from Moi University</p> <p data-bbox="742 815 1329 848">Certificate in Strategic Leadership from KSG</p> <p data-bbox="742 871 1378 1072">Having served in public sector in senior positions for more than two decades, he has a wealth of experience in transformative leadership and management best practices.</p> |

**VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR
LOANS SCHEME FUND**

Reports and Financial Statements
For the year ended June 30 2021

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

Guidance

The fund's budget for the year is as spelt out below

| Ref | Description | Kshs |
|-----|--|-------------------|
| 1 | Balance brought forward | 11,410,560 |
| 2 | Mortgage deductions (projected) | 41,161,412 |
| 3 | Car loan deductions (projected) | 13,378,583 |
| 4 | Debtors as at 30 th June 2020 | 9,073,455 |
| | TOTAL | 75,384,010 |

The fund's capital reduced by Ksh 80 million when all the car loans for members of county assembly were converted to grants. This has greatly impacted on the fund's sustainability since in the next 5 year cycle, it may not meet the needs of would be beneficiaries. The staff that had lined up to benefit had to shelve their demands as a result. Out of a budget of Kshs 75,384,010 , only Ksh 42,140,000 was issued out.

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 Vihiga County Assembly Car Loan and Mortgage Fund(state the period of the strategic document/plan) plan are to:

- a) Provide quality mortgage facilities for the members of the county assembly and staff
- b) Provide car loans to enable members and staff purchase their own cars.

VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR LOANS SCHEME FUND

Reports and Financial Statements
For the year ended June 30 2021

The fund started with a seed capital of 200M. This however has not been enhanced and therefore new loan applicants have to wait for monthly repayments to access the facility. This is after all the members of county assembly being given car loans and mortgage.

In the year the fund has given over 22 staff members mortgage facilities amounting to about 42,140,000.

The rest of the staff members who qualify are given loans when funds are available.

The fund has further depleted its capital by ksh.80M after the conversion of the car loan of 2Mfor MCAs to a grant.

Progress on attainment of Strategic development objectives

Below we provide the progress on attaining the stated objectives:

| Program | Objective | Outcome | Indicator | Performance |
|-----------------------|--|---------------------------|---------------------------------------|---|
| Car Loan and Mortgage | To provide car loan and mortgage facilities to members | Increased uptake of loans | Increased home ownership and mobility | In FY 20/21 we gave out a total of Kshs 42 million was issued out as loans |
| Program 1 | Objective | Outcome | Indicator | Performance |

VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR LOANS SCHEME FUND

Reports and Financial Statements
For the year ended June 30 2021

4. FUND ADMINISTRATION COMMITTEE CHAIRPERSON'S REPORT

It is my pleasure to present, on behalf of the County Assembly Service Board, the vihiga car loan and mortgage fund financial statements for the year ended 30th June 2021. The financial statements present the financial performance of the fund over the past year.

Sustainability

The fund and its stakeholders are increasingly emphasizing on the need to ensure sustainability for its resource mobilization and financing capabilities with an objective of ensuring that the fund's going concern is secured. However this changed when a total of Kshs 80 Million was converted to grant thus reducing the capital to Kshs 120 million

The fund has conducted a basic assessment of available options for feasible financing tools that would assure the fund of its long term sustainability. The fund will ensure that additional resource mobilisation is done to bridge the gap created as a result of conversion of Ksh 80Million to grant. Due to cash flow problems, the Fund borrowed Ksh 38 Million to finance the car grants to mcas. A total of Ksh 10 Million has been refunded leaving a balance of Kshs 28 Million.

Board and Management Changes

There were no significant board and management changes during the year under review. The organisation arrangement is expected to enhance efficiency in service delivery.

Review of performance

Income

The income from interest amounted to ksh 3,767,381.35 representing 94 % of the budgeted amount of Ksh 4,000,000. There was no other income other than interest income.

During the period, a total of Ksh 42,140,000 was disbursed as new and additional loans.

Expenditures

The total expenditures during the period amounted to KShs. 2,760,092.00 out of which bank charges amounted to Kshs 7,560.00 and fund administration expenses Kshs. 2,752,532.

Future outlook

The outlook of the Fund for 2021/2022 looks average unless the National Treasury offers more funding. The fund received a net of Ksh 1,619,446 from the Imprest account as part of the inter account borrowing leaving a balance of Ksh 75,918,081 million. The Fund will not give out loans in the year 2021/2022 in order to shore up capital for the year 2022. The fund's focus is looking to build a robust and sustainable fund with a motivated workforce and structures that enhance efficiency and effectiveness in the service delivery. The fund looks forward to continued support from the county government and development partners to the realization of its mandate.

**VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR
LOANS SCHEME FUND**

Reports and Financial Statements
For the year ended June 30 2021

Appreciation

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

I look forward to your continued support in the year 2021/2022.

Signed: _____



**HON HENRY ASAVA
FUND CHAIRMAN**

**VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR
LOANS SCHEME FUND**

Reports and Financial Statements
For the year ended June 30 2021

5. REPORT OF THE FUND ADMINISTRATOR

It is my pleasure to present the Vihiga Car loan and Mortgage Fund financial statements for the year ended 30th June 2021. The financial statements present the financial performance of the fund over the past year.

The fund was established on 1st May 2014 and started with an initial amount of KShs 200M . Since then, a total of 120 loan beneficiaries have made borrowings amounting to KShs 348M.

Financial Performance

a) Revenue

In the year ended 30th June 2021, the fund had projected revenues of KShs 4,000,000. Out of the projected revenue, the fund was able to realise KShs 3,767,381 in actual revenues, representing 94% performance a drop from the previous by 10%.

In the table below, we present an analysis of revenue performance during the year.

| Revenue classification | Revenue budget (KShs) | Actual (KShs) | Realization (%) |
|-------------------------------|------------------------------|----------------------|------------------------|
| Revenue | KShs | KShs | |
| Interest income | 4,000,000 | 3,767,381 | 94% |
| Total income | 4,000,000 | 3,767,381 | 94% |

b) Loans

During the financial year 2020/2021, the fund disbursed 22 new loans plus top ups totalling to Ksh 42,140,000 bringing the total loan beneficiaries to date to 142.

c) Cash flows

In the FY 2020/2021, we have had liquidity issues. This was as a result of previous borrowings by the county assembly totalling to Ksh 75,918,081 and the fact that the number of potential borrowers has increased by over 100 beneficiaries. The cash and cash equivalents reduced from KShs 11,410,561 as at 30th June 2020 to KShs 2,110,728 as at 30th June 2021. However due to delays from Treasury disbursements, payroll deductions for car loan and mortgage for June had not been received which as a result forms our debtors.

**VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR
LOANS SCHEME FUND**

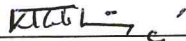
Reports and Financial Statements
For the year ended June 30 2021

REPORT OF THE FUND ADMINISTRATOR (Continued)

d) Conclusion

FY 2020/2021 was not a good year in general. This is because of the conversion of the carloan for legislators into loans which chipped off Ksh 80 Million from the initial capital of Ksh 200Million. Due to this, the Fund borrowed Ksh 38 Million to finance this unforeseen event. So far 10Million has been repaid leaving a balance of Ksh 28 Million. Also hampering the Fund's liquidity are the borrowings by the County Assembly which stand at Ksh 75,918,081.

I take this opportunity to thank the board of trustees for their support. I would also want to thank all staff who we have worked hand in hand to ensure that Vihiga County Assembly car loan and mortgage fund achieves its mission.

Signed: 

AMBAKA KILINGA

Fund Administrator

VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR LOANS SCHEME FUND

Reports and Financial Statements
For the year ended June 30 2021

CORPORATE GOVERNANCE STATEMENT

6. THE FUND MANAGEMENT COMMITTEE

The Vihiga county assembly car loan & mortgage scheme is a revolving fund established pursuant to the Salaries and Remuneration Commission (SRC) circular number SRC/TS/WH/3/14 of 14th February 2014. Section 167 of the Public Finance Management (PFM) Act 2012. Its mandate is to provide car loans to members of staff. The fund is committed to ensuring compliance with regulatory and supervisory corporate governance requirements. Essential to the establishment of a corporate governance framework in the fund is a formal governance structure with the board of management at its apex. The operations of the fund are governed by the Vihiga county assembly car loan regulations 2015. The structure is designed to ensure an informed decision making process based on accurate reporting to the Committee.

The Regulations 2015 provides that the committee members shall be made up of five trustees, including the chairman, and shall consist of a chairperson and six other members identified for appointment through a competitive process. The board of management is responsible for the long-term strategic direction of the fund and recruitment of the Fund Administrator and senior management. The board of management exercises leadership, enterprise, integrity and judgement in directing the Fund.

The management is provided with full, appropriate and timely information that enables them to maintain full and effective control over the strategic, financial, operational and compliance issues. The day-to-day running of the operations of the fund is delegated to the fund administrator but the board of management is responsible for establishing and maintaining the fund's system of internal controls for the realization of its mandate of providing financial support for improved access to water and sanitation in areas without adequate services.

All members of the Fund management committee have been taken through a comprehensive induction programme, and are adequately trained on their roles as board members. The members are professional, committed and guided by the mission, vision and core values of the Fund in execution of their duties. At the end of each financial year, the board, its committees, individual members and the Fund Administrator are evaluated by an independent body against targets agreed to at the beginning of the year.

FUND MANAGEMENT COMMITTEE MEETINGS

The Committee meets quarterly or as required in order to monitor the implementation of the fund's strategic plan and achievement of the targets and to approve loans by members and staff. The committee also plays an oversight role over all other financial and operational issues. The members held four full board and two special board meetings during the FY 2020/2021.

VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR LOANS SCHEME FUND

Reports and Financial Statements
For the year ended June 30 2021

CORPORATE GOVERNANCE STATEMENT(Continued)

AUDIT AND RISK COMMITTEE

In ensuring that corporate governance and integrity is enhanced in between the governance of the fund, the county assembly service board has established an audit and risk committee. The committee was established to advice the board on institutional risk management and compliance. The members of this committee during the year under review were:

| S/No. | Name | Position in committee | Period Served |
|--------------|---------------------|------------------------------|--|
| 1 | Mr Nebert Avutswa | Chairperson | 1 st Sept 2020 to 31 st Aug 2023 |
| 2 | Ms. Lucy Anangwe | Member | 1 st Sept 2020 to 31 st Aug 2023 |
| 3 | Ms. Harriet Mahasi | Member | 1 st Sept 2020 to 31 st Aug 2023 |
| 4 | Ms. Linet Mugalitsi | Member | 1 st Sept 2020 to 31 st Aug 2023 |
| 5 | Ms Brenda Ajema | Secretary | 1 st Sept 2020 to 31 st Aug 2023 |

STATEMENT OF COMPLIANCE

The board confirms that the fund has throughout the FY2020/2021 complied with all statutory and regulatory requirements and that the fund has been managed in accordance with the principles of good corporate governance.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

The board is responsible for reviewing the effectiveness of the fund's system of internal control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

Standing Instructions

The fund has a Code of Ethics and Service Charter that is applicable to all employees. These have a number of standing instructions to employees of the fund designed to enhance internal control.

VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR LOANS SCHEME FUND

Reports and Financial Statements
For the year ended June 30 2021

CORPORATE GOVERNANCE STATEMENT (Continued)

Organization Structure

A clear organizational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Training plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the fund can meet its future management requirements.

Strategic Plan

The business of the fund is determined by the strategic plan. The strategic plan sets out the objectives of the fund, and the annual targets to be met to attain those objectives. The strategic plan is evaluated annually to assess the achievement of those objectives. The board on an annual basis approves the work plan supported by the financial plan for the year. Progress against the plan is monitored on a quarterly basis.

Internal Control Framework

The fund continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an ongoing basis. A risk-based audit plan, which provides assurance over key business processes and operational and financial risks facing the fund, is approved by the audit and risk committee.

The audit and risk committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the board. Where weaknesses are identified, the committee ensures that management takes appropriate action. No significant failings or weaknesses were identified during the FY 2020/2021.

Management Team

The management team headed by the Fund Administrator implements the board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the board's objectives are achieved effectively and efficiently.

Auditor

The fund is audited by the Auditor-General.

VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR LOANS SCHEME FUND

Reports and Financial Statements

For the year ended June 30 2021

7. MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

BUSINESS PERFORMANCE

Revenue

The fund earned revenues amounting to KShs. 3,767,381 from interest on loans.

Cash flow

The cash and cash equivalents decreased from KShs 11,410,561 as at 30 June 2020 to KShs 2,110,728 as at 30 June 2021. There was equally a significant cash outflow as disbursement of loans to external CASB members and staff who became eligible upon clearing their commercial loans and meeting the set criteria.

OPERATIONAL PERFORMANCE

The fund's core operating activity has been the offering car loans and mortgage to members of county assembly (mcas) and staff. The county assembly has supported the fund and increased collections from members of staff has also added to the fund's better performance.

Conclusion

We appreciate the unrelenting support from the board of management, staff, the county government, National Treasury and all the key stakeholders. We look forward to the continued partnerships and cooperation in areas of mutual interest in the FY 2021/2022.

**VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR
LOANS SCHEME FUND**

Reports and Financial Statements
For the year ended June 30 2021

8. REPORT OF THE FUND ADMINISTRATION COMMITTEE

The Trustees submit their report together with the audited financial statements for the year ended June 30, 2021, which show the state of the Fund affairs.

8.1 Principal activities

The principal activities of the Fund continue to be provision of car loan and mortgage.

8.2 Performance

The performance of the Fund for the year ended June 30, 2021, are set out on page 19 to page 35

8.3 Trustees

The members of the Board of Management who served during the year are shown on page 2.

8.4 Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

Sign:

Name: 

Chair of the Fund

Date: 30/9/2021

**VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR
LOANS SCHEME FUND**

Reports and Financial Statements
For the year ended June 30 2021

9. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a County Public Fund established 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, 2021, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Fund's financial statements were approved by the Board on 30/9/ 2021 and signed on its behalf by:


Name: AMBAKA KILINGA

Administrator of the County Assembly Car Loan and Mortgage Fund.

REPUBLIC OF KENYA

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



Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR LOANS SCHEME FUND FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Vihiga County Assembly Car Loan and Mortgage Fund set out on pages 19 to 42, comprised of the statement of financial position as at 30 June, 2021, 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Vihiga County Assembly Members and Staff Mortgage and Car Loans Scheme Fund as at 30 June, 2021 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Public Finance Management (Vihiga County Assembly Members and Staff Mortgage and Car Loans Scheme Fund) Regulations, 2015.

Basis for Qualified Opinion

1. Presentation of Financial Statements

The financial statements contain the following errors and omissions:

- i. Only one Director, the Fund Administrator, has provided the personal information required of all members of the Fund Management Committee.
- ii. The financial statements do not include details of inter-entity transfers in an annex as required by the reporting format established by the Public Sector Accounting Standards Board.
- iii. The statement of cash flows incorrectly classifies a transfer from the County Government totalling Kshs.38,000,000 under cash flows from operating activities instead of cash flows from financing activities.
- iv. Significant accounting policy 13(e) on capital risk management reflects borrowings totalling Kshs.104,353,187. However, Note 6 to the financial statements reflects Kshs.28,000,000 in respect to the account. Further, the Note reflects comparative total borrowing and net debts totalling Kshs.144,440,668 and Kshs.133,030,107 respectively, whereas the audited financial statements for 2019/2020 reflected Kshs.135,238,439 and Kshs.123,827,878 in respect to the two accounts.

In view of these discrepancies, the financial statements are not properly presented and do not comply wholly with the reporting requirements set by the Public Sector Accounting Standards Board (PSASB).

2. Unconfirmed Balances

The following balances reflected in the financial statements were not supported with sufficient appropriate records or information:

2.1 Interest Income

The statement of financial performance reflects interest income totalling Kshs.3,767,381, as further disclosed in Note 1 to the financial statements, Management did not provide an analysis indicating how interest on outstanding mortgages and car loans was computed.

As a result, the accuracy and completeness of the interest income totalling Kshs.3,767,381 could not be confirmed.

2.2 Current Portion of Receivables from Non-exchange Transactions

The statement of financial position reflects current portion of long-term receivables from non-exchange transactions balance totalling Kshs.75,918,081, as further disclosed in Note 5 to the financial statements. The balance denotes loan and mortgage repayments due from Vihiga County Assembly as at 30 June, 2021 against Kshs.77,537,527 outstanding at the beginning of the financial year. Therefore the repayments made during the year totalled Kshs.1,619,446 only.

Further, records provided for audit indicated that the County Assembly did not remit car and mortgage loan deductions due in the month of June, 2021. However, the unremitted deductions were not included in the current portion of long-term receivables from non-exchange transactions balance totalling Kshs.75,918,081 as at 30 June, 2021.

In the circumstances, the receivables balance is not fairly stated and further, its accuracy and completeness could not be confirmed.

2.3 Car Grants

The Statement of changes in net assets reflects car grants totalling Kshs.80,000,000 as at 30 June, 2021. The grants were originally disbursed as loans to the Speaker and thirty-eight (38) Members of County Assembly (MCAs) but were thereafter converted to car grants as authorized in a new policy implemented for all County Assemblies in Kenya. The Speaker was paid Kshs.4,000,000 and each MCA Kshs.2,000,000, less any outstanding car loan balance. However, the grants were, contrary to advise by the Kenya Revenue Authority (KRA) paid without deduction of tax payable totalling Kshs.24,000,000 at the rate of 30% of each grant. In September, 2021 the KRA issued a demand letter to the Clerk of County Assembly of Vihiga in relation to the unpaid taxes. The Authority set the total amount due at Kshs.26,400,000 comprised of Pay-As-You-earn (PAYE) tax totalling Kshs.24,400,000 and interest on the outstanding tax totalling Kshs.1,200,000.

During the audit, Management indicated that the first instalment of the tax was paid in January, 2022, and KRA had since waived interest and penalties on the outstanding amount. However, no records were provided to validate this assertion. As a result, the balance of taxes owed to the KRA as at 30 June, 2021 could not be confirmed.

2.4 Receivables from Exchange Transactions

The statement of financial position reflects long-term receivables from exchange transactions of Kshs.65,783,733, and current portion of receivables from exchange

transactions totalling Kshs.38,569,454, as further reflected in Note 4 and Note 5 to the financial statements respectively. However, the loans register, and the debtors control accounts were not updated to show the principal loan amounts disbursed and the monthly balances outstanding thereof.

In the circumstances, the accuracy and completeness of the receivables from exchange transactions balances as at 30 June, 2021 could not be confirmed.

2.5 Loan Borrowings and Repayments

The statement of cash flows reflects proceeds from loan principal repayments totalling Kshs.34,866,432, and loans disbursements paid out totalling Kshs.42,140,000. However, the respective ledgers were not provided for audit review.

In addition, the statement reflects borrowing (transfers to related parties) totalling Kshs.6,654,800 and additional and repayment of borrowings (transfers from related parties) totalling Kshs.3,621,246. However, the parties related to these amounts were not disclosed in the records of the Fund provided for audit, or in the notes to the financial statements.

In the absence of relevant records, the accuracy, validity and completeness of the these balances could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Vihiga County Assembly Members and Staff Mortgage and Car Loans Scheme 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.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2021, reflects final revenue budget of Kshs.4,000,000 and actual receipts of Kshs.3,767,381 resulting to a shortfall of Kshs.232,619 or 6% of the budget. Similarly, the Fund had an approved expenditure budget of Kshs.1,328,833 against actual expenditure of Kshs.2,760,092 resulting to over-expenditure of Kshs.1,431,259 or 108% of the approved budget which was, however, not explained.

Further, the statement of performance against County entity's predetermined objectives indicates that the Fund had a budget of Kshs.75,384,010. Similarly, Note 4 of significant accounting policies states that the Fund did not have approved budget as it is a revolving Fund and there was no additional appropriation during the year.

In the circumstances, the budget information in the financial statements is contradictory.

2. Unresolved Prior Year Matters

In the audit report for the previous year, a number of paragraphs were raised under the Report on Financial Statements. However, Management had not resolved the issues as at 30 June, 2021. In addition, contrary to the reporting requirements set by the Public Sector Accounting Standards Board, the financial statements for the year under review do not include a report on progress made in resolving the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

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 else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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 controls, 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 controls 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 continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or 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 overall 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 controls 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 controls 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 noncompliance. 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 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 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

03 October, 2022

**VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR
LOANS SCHEME FUND**

Reports and Financial Statements
For the year ended June 30 2021

11. FINANCIAL STATEMENTS

**11.1 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th
JUNE 2021.**

| | Note | 2020/2021 | 2019/2020 |
|---|------|------------------|------------------|
| | | KShs | KShs |
| Revenue from exchange transactions | | | |
| Interest income | 1 | 3,767,381 | 4,551,806 |
| | | 3,767,381 | 4,551,806 |
| Total revenue | | 3,767,381 | 4,551,806 |
| Expenses | | | |
| General expenses | 2 | 2,760,092 | 1,868,300 |
| Other expenses | | | 22,800 |
| Total expenses | | 2,760,092 | 1,891,100 |
| Other gains/losses | | | |
| Gain/loss on disposal of assets | | | |
| Surplus/(deficit) for the period | | 1,007,289 | 2,660,706 |

The notes set out on pages 31 to 35 form an integral part of these Financial Statements.

VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR LOANS
SCHEME FUND


Reports and Financial Statements

For the year ended June 30 2021

11.2 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

| | Note | 2020/2021 | 2019/2020 |
|--|------|--------------------|--------------------|
| | | KShs | KShs |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 3 | 2,110,728 | 11,410,561 |
| Current portion of long- term receivables from exchange transactions | 4 | 38,569,454 | 59,874,745 |
| Current portion of receivables from non-exchange transactions | 5 | 75,918,081 | 77,537,527 |
| | | 116,598,263 | 148,822,833 |
| Non-current assets | | | |
| Long term receivables from exchange transactions | 4 | 65,783,733 | 84,565,923 |
| | | 65,783,733 | 84,565,923 |
| Total assets | | 182,381,996 | 233,388,756 |
| Liabilities | | | |
| Current liabilities | | | |
| Due to County executive | | 28,000,000 | - |
| | | - | - |
| Non-current liabilities | | | |
| Total liabilities | | 28,000,000 | - |
| Net assets | | 154,381,996 | 233,388,756 |
| Revolving Fund | | 120,000,000 | 200,000,000 |
| Accumulated surplus | | 34,396,045 | 33,388,756 |
| Total net assets and liabilities | | 154,396,045 | 233,388,756 |

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 30th SEPT 2021 and signed by:



Administrator of the Fund

Name: Ambaka Kiliga



Fund Accountant

Name: Stephen Masambu

ICPAK Member

Number:10533

VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR LOANS
SCHEME FUND

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

| | Revolving Fund | Accumulated surplus | Total |
|-----------------------------------|---------------------------|--------------------------------|--------------------|
| | | KShs | KShs |
| Balance as at 1 July 2019 | 200,000,000 | 30,728,050 | 230,728,050 |
| Surplus/(deficit) for the period | - | 2,660,706 | 2,660,706 |
| Balance as at 30 June 2020 | 200,000,000 | 33,388,756 | 233,388,756 |
| Balance as at 1 July 2020 | 200,000,000 | 33,388,756 | 233,388,756 |
| Surplus/(deficit) for the period | | 1,007,289 | 1,007,289 |
| Funds received during the year | (80,000,000) | - | (80,000,000) |
| Balance as at 30 June 2021 | 120,000,000 | 34,396,045 | 154,396,045 |

(Reserves form cumulative net interest over the years)

**VIHIGA COUNTY ASSEMBLY MEMBERS AND STAFF MORTGAGE AND CAR
LOANS SCHEME FUND**

Reports and Financial Statements

For the year ended June 30 2021

11.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

| | Note | 2020/2021 | 2019/2020 |
|---|------|---------------------|--------------------|
| | | KShs | KShs |
| Cash flows from operating activities | | | |
| Receipts | | | |
| Transfers from the County Government | | 38,000,000 | - |
| Interest received | 1 | 3,767,381 | 4,551,806 |
| Receipts from other operating activities | | | |
| Total Receipts | | 41,767,381 | 4,551,806 |
| Payments | | | |
| Fund administration expenses | 2 | 2,760,092 | 1,868,300 |
| General expenses | | | 22,800 |
| Total Payments | | 2,760,092 | 1,891,100 |
| Net cash flows from operating activities | | 39,007,289 | 2,660,706 |
| Cash flows from investing activities | | | |
| Proceeds from loan principal repayments | | 34,866,432 | 38,161,335 |
| Grants given out | | (38,000,000) | |
| Loan disbursements paid out | | (42,140,000) | (38,300,000) |
| Net cash flows used in investing activities | | (45,273,567) | (138,665) |
| Cash flows from financing activities | | | |
| Additional borrowings | | (6,654,800) | (24,717,000) |
| Repayment of borrowings | | 3,621,246 | 23,000,000 |
| Net cash flows used in financing activities | | (3,033,554) | (1,717,000) |
| Net increase/(decrease) in cash and cash equivalents | | | (805,041) |
| Cash and cash equivalents at 1 JULY | 3 | 11,410,561 | 10,605,520 |
| Cash and cash equivalents at 30 JUNE | 3 | 2,110,728 | 11,410,561 |

(IPSAS 2 allows an entity to present the cash flow statement using the direct or indirect method but encourages the direct method. PSASB also recommends the use of direct method of cash flow preparation. The above illustration assumes direct method)

11.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2021.

| | Original budget 2021 KShs | Adjustments 2021 KShs | Final budget 2021 KShs | Actual on comparable basis 2021 KShs | % utilisation 2021 |
|------------------------------------|---------------------------------|-----------------------------|------------------------------|---|--------------------------|
| Revenue | | | | | |
| Public contributions and donations | | | | | |
| Transfers from County Govt. | | | | | |
| Interest income | 4,000,000 | - | 4,000,000 | 3,767,381 | 94% |
| Total income | 4,000,000 | | 4,000,000 | 3,767,381 | 94% |
| Expenses | | | | | |
| Fund administration expenses | 1,278,333 | - | 1,278,333 | 2,760,092 | 215% |
| General expenses | 50,000 | | 50,000 | - | 0% |
| Total expenditure | 1,328,833 | | 1,328,833 | 2,760,092 | |
| Surplus for the period | 2,671,667 | | 2,671,667 | 1,007,289 | 37.7% |

Budget notes

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

11.6 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.

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Adoption of new and revised standards
 - a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2021

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| Standard/ Amendments : Applicable: 1 st January 2021: | Impact |
|--|--|
| a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks | There was no impact of the amendment to IPSAS 13 with respect to the current financial report |
| b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment. Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved | There was no impact of the amendment to IPSAS 13 and IPSAS 17 with respect to the current financial report as the entity did not apply any of the transitional provisions in the FY 2020/2021 |
| c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets. | There was no impact of the amendment to IPSAS 21 and IPSAS 26 with respect to the current financial report as the entity does not have Non-Cash Generating Assets and neither did it have impaired cash generating assets. |
| d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard | <i>Document the impact if the fund is reporting for the first time on accrual/ Otherwise indicate that there was no impact</i> |

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021

| Standard | Effective date and impact: |
|---|---|
| <p>IPSAS 41: Financial Instruments</p> | <p>Applicable: 1st January 2022:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p><i>(State the impact of the standard to the entity if relevant)</i></p> |
| <p>IPSAS 42: Social Benefits</p> | <p>Applicable: 1st January 2022</p> |

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| Standard | Effective date and impact: |
|---|--|
| | <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> <ul style="list-style-type: none"> (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><i>(State the impact of the standard to the entity if relevant)</i></p> |
| <p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p> | <p>Applicable: 1st January 2022:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. <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> |

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Early adoption of standards

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

3. Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

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

ii) Revenue from exchange transactions

Interest income

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

4. Budget information

The original budget for FY 2020/2021 was not approved by the County Assembly since this is a revolving fund. There was no additional appropriations in the year except that Kshs 80 Million was converted to grant.

2. Financial instruments

a) Financial assets

Initial recognition and measurement

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

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Loans and receivables

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

Held-to-maturity

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

Impairment of financial assets

The Entity assesses at each date whether there is objective evidence that a financial asset or a entity of financial assets is reporting 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)

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

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

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

3. 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.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. All the net interest are added to the previous year's reserves.

5. 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.

6. Related parties

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

7. Cash and cash equivalents

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

8. Comparative figures

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

VIHIGA COUNTY ASSEMBLY CAR LOAN AND MORTGAGE FUND

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SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Events after the reporting period

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

10. Ultimate and Holding Entity

The entity is a County Public Fund established by the SRC circular and Vihiga County Assembly Members (car loan Scheme Fund) regulations. Its ultimate parent is the County Government of Vihiga.

11. Currency

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

12. Significant judgments and sources of estimation uncertainty

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

a) Estimates and assumptions

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

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b) 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.

13. 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:

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| | Total amount KShs | Fully performing KShs | Past due KShs | Impaired KShs |
|--|----------------------------------|--------------------------------------|------------------------------|--------------------------|
| At 30 June 2021 | | | | |
| Receivables from exchange transactions | 104,353,187 | 104,353,187 | - | - |
| Receivables from non-exchange transactions | 75,918,081 | 75,918,081 | - | - |
| Bank balances | 2,110,728 | 2,110,728 | - | - |
| Total | 182,381,996 | 182,381,996 | - | - |
| | | | | |
| At 30 June 2020 | | | | |
| Receivables from exchange transactions | 144,440,668 | 144,440,668 | - | - |
| Receivables from non-exchange transactions | 77,537,527 | 77,537,527 | - | - |
| Bank balances | 11,410,561 | 11,410,561 | - | - |
| Total | 233,388,276 | 233,388,276 | - | - |

(NB: The totals column should tie to the individual elements of credit risk disclosed in the entity's statement of financial position)

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 entity has significant concentration of credit risk on amounts due from all debtors.

The board of management 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.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

d) 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.

e) Capital risk management

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

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| | 2020/2021 | 2019/2020 |
|---|--------------------|--------------------|
| | KShs | KShs |
| Revolving fund | 120,000,000 | 200,000,000 |
| Accumulated surplus | 34,396,045 | 33,388,756 |
| Total funds | 154,396,045 | 233,388,756 |
| | | |
| Total borrowings | 104,353,187 | 144,440,668 |
| Less: cash and bank balances | (2,110,728) | (11,410,561) |
| Net debt/(excess cash and cash equivalents) | 102,242,459 | 133,030,107 |
| Gearing | 151% | 175% |

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12. NOTES TO THE FINANCIAL STATEMENTS

1. Interest income

| | 2020/2021 | 2019/2020 |
|-------------------------------------|------------------|------------------|
| | KShs | KShs |
| Interest income from Mortgage loans | 3,374,459 | 3,615,727 |
| Interest income from car loans | 392,922 | 936,079 |
| Interest income from investments | - | - |
| Interest income on bank deposits | - | - |
| Total interest income | 3,767,381 | 4,551,806 |

(This is purely interest income charged at 3% p.a)

2. General expenses

| Description | 2020/2021 | 2019/2020 |
|-------------------------|------------------|---------------|
| | KShs | KShs |
| Administration expenses | - | 21,300 |
| Insurance costs | 2,752,532 | - |
| Bank Charges | 7,560 | 1,500 |
| Total | 2,760,092 | 22,800 |

3. Cash and cash equivalents

| Description | 2020/2021 | 2019/2020 |
|---|------------------|-------------------|
| | KShs | KShs |
| Vihiga County car loan & mortgage account | 2,110,728 | 11,410,561 |
| Total cash and cash equivalents | 2,110,728 | 11,410,561 |

(The amount should agree with the closing and opening balances as included in the statement of cash flows)

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

| Financial institution | Account number | 2020/2021 | 2019/2020 |
|---------------------------|----------------|------------------|-------------------|
| | | KShs | KShs |
| a) Current account | | | |
| Cooperative Bank of Kenya | | 2,110,728 | 11,410,561 |
| Bank B | | - | - |
| Sub- total | | 2,110,728 | 11,410,561 |
| Grand total | | 2,110,728 | 11,410,561 |

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4. Receivables from exchange transactions

| Description | 2020/2021 | 2019/2020 |
|---|--------------------|--------------------|
| | KShs | KShs |
| Current Receivables | | |
| Interest receivable | 261,915 | 704,464 |
| Current loan repayments due | 38,307,539 | 59,170,281 |
| Other non-exchange debtors | 75,918,081 | 77,537,527 |
| Less: impairment allowance | | |
| Total Current receivables | 114,487,535 | 137,412,272 |
| Non-Current receivables | | |
| Long term loan repayments due | 65,783,733 | 84,565,923 |
| Total Non- current receivables | 65,783,733 | 84,565,923 |
| Total receivables from exchange transactions | 180,271,268 | 221,978,195 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Receivables from Non-Exchange transaction

| Description | 2020/2021 | 2019/2020 |
|---|-------------------|-------------------|
| | KShs | KShs |
| Transfer from County Executive | - | - |
| Transfer from Fund | 75,918,018 | 77,537,527 |
| Total receivables from non-exchange transactions | 75,918,018 | 77,537,527 |

6. Borrowings

| Description | 2020/2021 | 2019/2020 |
|---|-------------------|-----------|
| | KShs | KShs |
| Balance at beginning of the period | 0 | 0 |
| Domestic borrowings during the year | 38,000,000 | 0 |
| Repayments of domestic borrowings during the period | (10,000,000) | 0 |
| Balance at end of the period | 28,000,000 | 0 |

7. Related party balances

a) Nature of related party relationships

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

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

b) Related party transactions

| | 2020/2021 | 2019/2020 |
|---------------------------------|-----------|-----------|
| | KShs | KShs |
| Transfers from related parties' | 3,621,246 | - |
| Transfers to related parties | 6,654,800 | - |

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c) Due from related parties

| | 2020/2021 | 2019/2020 |
|--------------------------|-------------------|-------------------|
| | KShs | KShs |
| Due from County Assembly | 75,918,081 | 77,237,537 |
| Total | 75,918,081 | 77,237,537 |

d) Due to related parties

| | 2020/2021 | 2019/2020 |
|--------------------------|-------------------|------------------|
| | KShs | KShs |
| Due to County Government | 28,000,000 | 0 |
| Total | 28,000,000 | 0 |

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

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

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|-----------------------------------|---------------------|--------------------------------------|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |

***Prior year's audit report has not been received

Guidance Notes:

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

