BCA/PAC/PIC/07/2019/12

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF BOMET COUNTY CAR LOAN AND MORTGAGE SCHEME FUND

FOR THE YEAR ENDED 30 JUNE 2018

1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

Bomet County Government Car loan and Mortgage Fund is established by and derives its authority and accountability from Section 116 of Public Finance Management Act, 2012.The Fund is wholly owned by the County Government of Bomet County Government and is domiciled in Kenya.

The fund's objective is to provide financial assistance to provide loan scheme for the purchase, development, renovation or repair of property by members of the scheme.

The Fund's principal activity is disburse loans to members.

b) Principal Activities

The principal activity/mission/ mandate of the Fund is to provide car loans and mortgage to members.

c) Board of Trustees/Fund Administration Committee

Ref	Name	Position
1	David Kikwai-CO Finance	Chairperson
2	Oscar Sang-Legal advisor	V. Chairperson
3	Wesley Sigei	"
4	Kipngetich Toweet	"
5	Alfred Odongo	"
6	Charles Koech	Fund Administrator

d) Key Management

Ref	Name	Position
1	David Kikwai-CO Finance	Chairperson
2	Oscar Sang-Legal advisor	V. Chairperson
3	Wesley Sigei	"
4	Kipngetich Towett	"
5	Alfred Odongo	"
6	Charles Koech	Fund Administrator

2. THE BOARD OF TRUSTEES (or any other corporate governance body for the Fund)

Name	Details of qualifications and experience
CPA David Cheruiyot Kikwai 	CPA David C. Kikwai is the Chief Officer, Finance. He has MBA, BCOM, CPA (K) and CPS (K). He has over 28 years working experience most of which in different senior capacities. He is the chairperson of the fund
Mr. Oscar Sang 	Mr. Sang is the Director in charge of Legal Services at the County. He holds Masters of Law (LLM) from UCT, Bachelor's Degree in Law (LLB) from Moi University and Diploma in Law from KSL. He has over 15 years litigation experience. He is the vice chairperson of the fund
Mr. Wesley Sigei 	Mr. Sigei is the Director Human Resource Management at the County. He has Bachelors and Higher Diploma in HRM with over 28 years working experience. He is a Member of IHRM with practicing certificate. He serves as a member of the fund
Mr. Kipngetich Towett 	Mr. Towett is the Deputy Director Revenue. He has over 15 years working experience. He holds Masters Degree in Education, Bachelor of Education, Post Graduate Diploma in Management and CPS (II). He serves as a member of the fund
Mr. Alfred Adongo 	Mr. Alfred Adongo is the Senior Administrative Officer in the Department of Social Services. He has MBA, BA Sociology, CPS and over 17 years working experience. He serves as a member of the fund
Mr. Charles Cheruiyot Koech 	Mr. Koech is the Director ICT. He has Masters in IT, Bachelors Degree in Computer Science, Post Graduate Diploma in Project Management and Senior Management Course (SMC). Koech has over 13 years working experience. He is the fund administrator and secretary to the fund.

TABLE OF CONTENTS

4. BOARD/FUND CHAIRPERSON'S REPORT

On behalf of the Staff Car and Mortgage Management Committee I have the pleasure of presenting to you the Annual Report and financial statements for the year ended 30th June 2018.

Fund performance

The Fund Committee has so far received Ksh 28,000,000 as transfers for Bomet county treasury. No applications were received during the financial year since the funds were received towards the close of the financial year.

Strategy

In spirit of attracting, motivating and retaining qualified civil servants in the public sector, the government introduced a low interest car loans and mortgages to all public servants and state officers. The committee's strategy in achieving this agenda is to work closely with all members of staff and help them handle possible challenges hindering them from accessing these facilities. This shall be done by conducting training on matters of personal budget and financial discipline to all members of staff.

Conclusion

The committee is fully committed to maximizing stakeholders' value and assisting the County in fulfilment of Section 12 (7) of the County Governments Act 2012 while fulfilling the spirit of the Salaries and Remuneration Commission of attracting, motivating and retaining qualified workforce.

CPA DAVID KIKWAI
CHIEF OFFICER FINANCE

6. CORPORATE GOVERNANCE STATEMENT

The County Government of Bomet is committed to best practice and has adopted the Salaries and Remuneration Commission (SRC) guidelines and Principles in implementing the civil servants' car loans and mortgages schemes. These principles are used as a guide to best practice in dealing with these loans. The county executive wishes to report this corporate governance statement as part of its commitment to preserving stakeholder's confidence.

The County Government of Bomet passed the regulations on 13th February 2018 which guide the implementation of the SRC recommendation on state officers and civil servant's car loans and mortgages. These regulations are namely; 1) Regulations for the Operationalization of the Bomet county state and public officers' Car Loan Funds Scheme and 2) Regulations for the operationalization of the Bomet county state and public officers' Mortgage Funds Scheme.

Committee Composition

Section 6 (1) of the Regulations established a loans management committee known as the Car and Mortgage Loan Management Committee. It is the only body mandated to oversee the implementation of the said schemes. Its membership consist of:-

a) The chief officer responsible for finance who shall be the chairperson.
b) The Head of Human Resource Department
c) The Head of legal services.
d) Two members of staff to be appointed by the county secretary
e) The Fund Administrator (ex-officio) appointed by the county executive member for finance

Section 6 (4) of the said regulations provides the loans management committee with mandate to consider when conducting and approving disbursements of loan applications presented by the fund administrator.

Oversight role

The County Executive provides direction with a focus on consistent operation of the fund in an atmosphere of transparency and accountability. It retains full control and monitors implementation of the plans and strategies.

In accordance with the principle of good governance, Members of the Committee are required to act in accordance with the highest standards of honesty and integrity as per chapter six of the Kenya Constitution 2010. They ensure ethical behaviour and compliance with relevant laws and regulations, audit, and accounting principles, corporate policies, procedures and code of ethics.

7. MANAGEMENT DISCUSSION AND ANALYSIS

The fund was established by the Salaries and Remuneration Commission (SRC) Circular Ref. No. **SRC/ADM/CIR/1/13 Vol. III (128)** dated **17th December 2014** with aim of enabling public service attract, motivate and retain the best skills in line with the Article 230(5) of the Kenya Constitution. The same was operationalized by the County Government of Bomet in the year 2018 after the passing of the guiding regulations.

The regulations also require that all loans disbursed be secured through a perfected Title Deed or a joint registered log book. In addition, a loan protection policy has to be in place. The committee is happy to report that all loans have sufficiently been secured and loan protection policy placed on them against either death or permanent disability of the member.

Though the schemes have had a positive impact to the welfare of the civil servants, the committee has faced numerous challenges during its implementation. These includes;

a) Overcommitted pay-slips

The loan schemes having been introduced recently, some civil servants have already acquired loans from various commercial banks prior to establishment of the scheme. Therefore, those employees were left with little income which can't be committed further without violating the mandatory minimum one third rule of basic salary. This situation has hindered many of them from applying for the car loans or mortgage.

b) Title Deeds used as security registered in the name of applicant's parents

The regulations direct that, all loans disbursed must be fully secured either with Title Deed or log books either registered under applicant's name or a third party. This poses a serious legal challenge in future if consent to charge is not acquired from the other beneficiaries of the said Title Deed.

c) Lack of Title Deeds

The committee appreciates the fact that some areas are yet to be adjudicated for issuance of Title Deeds. This hinders some members of staff who wish to apply for mortgage loans since they lack the necessary lien for the loan.

The expectation of every member is that all civil servants will indeed realize the advantages of having these commendable schemes and purpose to secure one as we pursue the duty of serving the citizens of Kenya.

9. REPORT OF THE TRUSTEES

The Trustees submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the Fund affairs.

Principal activities

The principal activities of the Fund are is to facilitate in attraction, motivation and retention of the best skills in the public service in line with the Article 230(5) of the Kenya Constitution.

Results

The results of the Fund for the year ended June 30, 2018 are set out on page 17 to 22

Trustees

The members of the Board of Trustees who served during the year are shown on page 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

Member of the Board

Date: 29th sept 2018.

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON BOMET COUNTY CAR LOAN AND MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Bomet County Car Loan and Mortgage Scheme Fund set out on pages 14 to 46, which comprise the statement of financial position as at 30 June 2018 , and the statement of financial performance, statement of cash flows, statement of changes in net assets 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, the financial statements present fairly, in all material respects, the financial position of Bomet County Car Loan and Mortgage Scheme Fund as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accruals Basis) and comply with the Public Finance Management Act 2012 Laws of Kenya.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Bomet County Car Loan and Mortgage Scheme Fund in accordance with ISSAI 30 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 opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There are no key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

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

Auditor-General's Responsibilities for the Audit

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

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 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 Bomet County Car Loan and Mortgage Scheme Fund policies and procedures may deteriorate.

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

12. FINANCIAL STATEMENTS

12.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2018

	Note	FY2017/2018	FY2016/2017
		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	-	
Other income	5	-	
Total revenue			
Expenses			
Fund administration expenses	6	0	
Staff Costs	7	-	
General expenses	8	-	
Finance costs	9		
Total expenses		**0**	
Other gains/losses			
Gain/loss on disposal of assets	10	-	
Surplus/(deficit) for the period			

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

12.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	FY2017/2018 KShs	FY2016/2017 KShs
Assets			
Current assets			
Cash and cash equivalents	11	28,000,000	
Current portion of long term receivables from exchange transactions	12	-	
Prepayments	13	-	
Inventories	14	-	
Non-current assets			
Property, plant and equipment	15	-	
Intangible assets	16	-	
Long term receivables from exchange transactions	12	-	
Total assets		**28,000,000**	
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	17	-	
Provisions	18	-	
Current portion of borrowings	19	-	
Employee benefit obligations	20	-	
Non-current liabilities			
Non-current employee benefit obligation	20	-	
Long term portion of borrowings	19	-	
Total liabilities		-	
Net assets			

12.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2018

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2016			-	-
Surplus/(deficit) for the period			-	-
Funds received during the year			-	-
Revaluation gain			-	-
Balance as at 30 June 2017			-	-
Balance as at 1 July 2017			-	-
Surplus/(deficit) for the period				
Funds received during the year	28,000,000			28,000,000
Revaluation gain			-	-
Balance as at 30 June 2018	28,000,000			28,000,000

(Provide details on the nature and purpose of reserves)

Net cash flows used in financing activities		-	
Net increase/(decrease) in cash and cash equivalents		**28,000,000**	
Cash and cash equivalents at 1 JULY	11	-	-
Cash and cash equivalents at 30 JUNE	11	**28,000,000**	-

(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)

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.*

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 2017/2018 was approved by the County Assembly on xxxx. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded additional appropriations of xxxxx on the 2017-2018 budget following the governing body's approval.

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Held-to-maturity

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

Impairment of financial assets

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

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

Financial liabilities

Initial recognition and measurement

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

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

Loans and borrowing

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. *Entity to state the reserves maintained and appropriate policies adopted.*

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)

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: e.g

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

Useful lives and residual values

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

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

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)

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

The entity has significant concentration of credit risk on amounts due from xxxx

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 2018				
Trade payables	-	-	-	-
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Employee benefit obligation	-	-	-	-
Total	-	-	-	-
At 30 June 2017	-	-	-	-
Trade payables	-	-	-	-
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Employee benefit obligation	-	-	-	-
Total	-	-	-	-

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
2018			
Euro	10%	-	-
USD	10%	-	-
2017		-	-
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 company'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 xxx (2017: KShs xxx). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs xxx (2017 – KShs xxx)

12.7. NOTES TO THE FINANCIAL STATEMENTS

1. Public contributions and donations

Description		FY2017/2018	FY2016/2017
		KShs	KShs
Donation from development partners	-		-
Contributions from the public	-		-
Total	-		-

(Provide brief explanation for this revenue)

2. Transfers from County Government

Description		FY2017/2018	FY2016/2017
		KShs	KShs
Transfers from County Govt. – operations		28,000,000	
Payments by County on behalf of the entity			
Total		**28,000,000**	

3. Fines, penalties and other levies

Description		FY2017/2018	FY2016/2017
		KShs	KShs
Late payment penalties	-		-
Fines	-		-
Total	-		-

(Provide brief explanation for this revenue)

4. Interest income

Description		FY2017/2018	FY2016/2017
		KShs	KShs
Interest income from loans(mortgage or car loans	-		-
Total interest income	-		-

(Provide brief explanation for this revenue)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. General expenses

Description		FY2017/2018	FY2016/2017
		KShs	KShs
Consumables	-		-
Electricity and water expenses	-		-
Fuel and oil costs	-		-
Insurance costs	-		-
Postage	-		-
Printing and stationery	-		-
Rental costs	-		-
Security costs	-		-
Telecommunication	-		-
Hospitality	-		-
Depreciation and amortization costs	-		-
Other expenses	-		-
Total	-		-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Financial institution	Account number	FY2017/2018 KShs	FY2016/2017 KShs
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			
Kenya Commercial bank			
Equity Bank-Bomet		1220277299764	28,000,000.00
Sub- total			**28,000,000.00**
d) Others(specify)			
Cash in transit			
Cash in hand			
M Pesa			
Sub- total			
Grand total			

12. Receivables from exchange transactions

Description	FY2017/2018 KShs	FY2016/2017 KShs
Current Receivables		
Interest receivable	-	-
Current loan repayments due	-	-
Other exchange debtors	-	-
Less: impairment allowance	-	-
Total Current receivables		
Non Current receivables		
Long term loan repayments due	-	-
Total Non current receivables	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Prepayments

Description	FY2017/2018	FY2016/2017
	KShs	KShs
Prepaid rent	-	-
Prepaid insurance	-	-
Prepaid electricity costs	-	-
Total	-	-

14. Inventories

Description	FY2017/2018	FY2016/2017
	KShs	KShs
Consumable stores	-	-
Spare parts and meters	-	-
Catering	-	-
Total inventories at the lower of cost and net realizable value	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Intangible assets-software

Description		FY2017/2018	FY2016/2017
		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	-		-

17. Trade and other payables from exchange transactions

Description		FY2017/2018	FY2016/2017
		KShs	KShs
Trade payables	-		-
Refundable deposits	-		-
Accrued expenses	-		-
Other payables	-		-
Total trade and other payables	-		-

18. Provisions

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. 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	-	-	-	-

21. Cash generated from operations

	FY2017/2018	FY2016/2017
	KShs	KShs
Surplus for the year before tax		
Adjusted for:		
Depreciation	-	-
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	-	-

(The total of this statement should tie to the cash flow section on net cash flows from operating activities)

22. Related party balances

a) Nature of related party relationships

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

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

13. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	**Issue / Observations from Auditor**	**Management comments**	**Focal Point person to resolve the issue** *(Name and designation)*	**Status:** *(Resolved / Not Resolved)*	**Timeframe:** *(Put a date when you expect the issue to be resolved)*

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.