Revised Template June 2018



**ABC COUNTY ASSEMBLY - XYZ FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIALYEAR ENDED**

**JUNE 30, 2018**

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

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# KEY ENTITY INFORMATION AND MANAGEMENT

1. **Background information**

The ABC county assembly car loan 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 mandates the administrator of public funds with the preparation of annual financial statements.

For proper management of the fund and as advised by the SRC in the circular under the reference, ABC county adopted the PFM regulations 2014 to guide in the operationalization of the fund. As advised by the SRC and as provided for under regulation 16 of the said regulations, the County Service Board appointed a banking institution to manage the fund.

Until 31st August 2015, the fund was under the management of financial institution, Delta Bank Ltd. The role of the bank was to provide administration services for the fund. However, the bank failed to honour its part of the contractual obligations leading to termination of the administrative services with effect from 31st August 2015. Since then, the fund has been internally administered in the county government by the office of the clerk.

The SRC in its circular reference SRC/ADM/CIR/1/13 Vol.III (128) dated 17th December 2014 provided guidelines for access of car loan and mortgage benefits by state and public officers. Arising therefrom, the County Assembly Service Board approved and adopted the Staff Loans Policy Paper on 17th March 2015

The fund is wholly owned by the county government of ABC and is domiciled in Kenya.

1. **Principal Activities**

The principal activity/mission/ mandate of the fund is to provide car loans to staff.

**Vision**

“The fund of choice for staff.”

**Mission**

“To provide affordable, accessible and sustainable car loans to staff.”

**Core Values**

The fund upholds the values of accountability, transparency, excellence, accessibility, integrity, responsiveness, equity and team work.

1. **Board of Trustees/Fund Administration Committee**

|  |  |  |
| --- | --- | --- |
| **Ref** | **Name** | **Position** |
| 1 | John Onyango | Clerk – ABC County Assembly |
| 2 | Dominic Mutiso | Chairman – Board of Trustees |
| 3 | Mercy Wafula | Fund Administrator |

1. **Key Management**

|  |  |  |
| --- | --- | --- |
| **Ref** | **Name** | **Position** |
| 1 | Mercy Wafula | Fund Administrator |
| 2 | Joseph Onsongo | Fund Accountant |

1. **Registered Offices**

P.O. Box 345 - 00090

ABC Building/House/Plaza

ABC Avenue/Road/Highway

Nairobi, KENYA

1. **Fund Contacts**
2. Telephone: (254) 728123456
3. E-mail: infor@ABCcountyassembly.go.ke
4. Website: www.ABCcountya.go.ke
5. **Fund Bankers**
6. Central Bank of Kenya

Haile Selassie Avenue

P.O. Box 60000

City Square 00200

Nairobi, Kenya

1. Kenya Commercial Bank

Kencom Building, Moi Avenue

P.O. Box 19828 - 00100

Nairobi, Kenya

1. Equity Bank

Equity Centre, Upper Hill

P.O. Box 1234 - 00100

Nairobi, Kenya

1. **Independent Auditors**

Auditor General

Kenya National Audit Office

Anniversary Towers, University Way

P.O. Box 30084

GOP 00100

Nairobi, Kenya

1. **Principal Legal Adviser**

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

# THE BOARD OF TRUSTEES

The board of trustees during the financial year consisted of:

|  |  |
| --- | --- |
|  | **John Onyango - Clerk**  John Onyango was appointed the first Clerk of ABC County Assembly on 10th March 2013. He holds a Bachelor of Arts Degree (Economics) from the University of Nairobi. He also has an MBA from the University of Cambridge. Before his appointment as the clerk, he served as the chief legal officer in the ministry of labour and social services. |
|  | **Dominic Mutiso – Chair – Board of Trustees**  Dominic Mutiso was elected as appointed as the first chair of the board of trustees. Before his appointment, he served as a senior accountant at the National Treasury. He has also held various top management positions in different institutions. |
|  | **Ms. Mercy Wafula – Fund Administrator**  Ms. Mercy Wafula was appointed as the Fund Administrator on 5th October 2015.  Before her appointment, she served as the Chief Finance Officer of a multinational company. She has also sat in Board Audit Committees of various listed entities. Ms Mwololo holds a Bachelor Commerce (Accounting) from Strathmore University. She is also a Chartered Finance Analyst (CFA). |

# MANAGEMENT TEAM

The management during the financial year consisted of:

|  |  |
| --- | --- |
|  | **Ms. Mercy Wafula – Fund Administrator**  Ms. Mercy Wafula was appointed as the Fund Administrator on 5th October 2015.  Before her appointment, she served as the Chief Finance Officer of a multinational company. She has also sat in Board Audit Committees of various listed entities. Ms Mwololo holds a Bachelor Commerce (Accounting) from Strathmore University. She is also a Chartered Finance Analyst (CFA). |
|  | **Joseph Onsongo – Fund Accountant**  Joseph Onsongo was appointed as the Fund Accountant on 5th October 2015.  Before his appointment, he served as the Chief Accountant at Kenya Roads Authority. He holds a Bachelor Commerce (Accounting) from University of Nairobi. He is also a Certified Public Accountant (CPA). |

# BOARD/FUND CHAIRPERSON’S REPORT

It is my pleasure to present, on behalf of the board of trustees, the XYX car loan fund financial statements for the year ended 30th June 2018. 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 both its investments and its resource mobilization and financing capabilities with an objective of ensuring that the fund’s going concern is secured.

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 has reviewed its current resource mobilization strategies and proposed feasible sustainability financing options.

**Board and Management Changes**

During the year, one of the trustees Mr. William Ntutu resigned to join politics.

The board established a taskforce with the mandate to review and interrogate the adequacy and effectiveness of the fund’s organogram in carrying out its mandate and make recommendations. The taskforce carried out the assignment and made several recommendations key among them the automation of the fund’s operations. The organisation arrangement is expected to enhance efficiency in service delivery.

**Review of performance**

**Income**

The fund earned revenues amounting to KShs. 42,930,910 from public contributions and donations, the county government and other revenues from other exchange transactions. The income from public contributions and donations amounted to KShs. 18,372,364 while KShs. 6,139,637 was earned through support from the county government and KShs 5,321,018 from fines, penalties and other levies. Income from exchange transactions contributed KShs. 13,097,891. Overall income increased by 11%.

Projects implementation during the period were carried out as per the plan with the coordinated efforts by all stakeholders. The performance was also attributed to a favourable opening cash balance of KShs. 27,562,844 at the beginning the year.

**Expenditures**

The total expenditures during the period amounted to KShs. 44,384,708 out of which the administration expenses amounted to KShs. 22,192,354, general expenses KShs 19,973,119 and finance costs KShs. 2,219,235 representing 50%, 45% and 5% of total expenditures respectively.

**BOARD/FUND CHAIRPERSON’S REPORT (Continued)**

**Future outlook**

The outlook of the Fund for 2018/2019 looks brighter. The fund hopes to establish other funds like mortgage funds. The fund 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.

**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 2018/2019.

Signed: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Dominic Mutiso**

**Board Chairman**

# REPORT OF THE FUND ADMINISTRATOR

It is my pleasure to present the XYX car loan financial statements for the year ended 30th June 2018. 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 and a further KShs 24.5M was received in the period under reporting. Since then, a total of 150 loan beneficiaries have made borrowings amounting to KShs 220M. Of this, KShs 211M had been paid and KShs 9M was outstanding as at the reporting date.

**Financial Performance**

1. **Revenue**

In the year ended 30th June 2018, the fund had projected revenues of KShs 46,036,804. Out of the projected revenue, the fund was able to realise KShs 42,930,910 in actual revenues, representing 93% performance.

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Revenue classification** | **Revenue budget (KShs)** | **Actual (KShs)** | **Realisation (%)** |
| **Revenue** | **KShs** | **KShs** |  |
| Public contributions and donations | 18,372,364 | 18,372,364 | 100% |
| Transfers from County Govt. | 6,139,637 | 6,139,637 | 100% |
| Interest income | 12,045,671 | 10,232,728 | 85% |
| Fines, penalties and other levies | 6,473,215 | 5,321,018 | 82% |
| Other income | 3,005,917 | 2,865,163 | 95% |
| **Total** **income** | **46,036,804** | **42,930,910** | **93%** |

**REPORT OF THE FUND ADMINISTRATOR (Continued)**

A graphical representation of the revenue budget is as shown below:

1. **Loans**

During the financial year 2017/2018, the fund disbursed 50 new loans bringing the total loan beneficiaries to date to 150. This was a 33% increase and the highest recorded in a single financial year since the inception of the fund.

1. **Cash flows**

In the FY 2017/2018, we have not had many liquidity disruptions. This was as a result of proper planning and better loan collections. The cash and cash equivalents increased from KShs 27,562,845 as at 30th June 2017 to KShs 71,665,346 as at 30th June 2018.

1. **Conclusion**

FY 2017/2018 was a good year in general. Good progress was made and the momentum has been created to enable XYZ car loan fund continue on a trajectory into prosperity. We have identified gaps and areas to improve on in the subsequent years.

**REPORT OF THE FUND ADMINISTRATOR (Continued)**

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 XYZ car loan fund achieves its mission.

Signed: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Mercy Wafula**

**Board Chairman**

# CORPORATE GOVERNANCE STATEMENT

**THE BOARD**

The ABC county assembly car loan 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 trustees at its apex. The operations of the fund are governed by a Trust Deed made on 26th April, 2014. The structure is designed to ensure an informed decision making process based on accurate reporting to the board.

**THE BOARD OF TRUSTEES**

The trust deed of 2014 provides that the board of trustees shall be made up of five trustees, including the chairman, and shall consist of a chairperson and four other members identified for appointment through a competitive process. The board of trustees is responsible for the long-term strategic direction of the fund and recruitment of the Fund Administrator and senior management. The board of trustees exercises leadership, enterprise, integrity and judgment in directing the Fund.

The trustees are 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 trustees 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 board of trustees have been taken through a comprehensive induction programme, and are adequately trained on their roles as board members. The trustees 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 trustees and the Fund Administrator are evaluated by an independent body against targets agreed to at the beginning of the year.

**BOARD MEETINGS**

The board of trustees meets quarterly or as required in order to monitor the implementation of the fund’s strategic plan and achievement of the targets in the performance contract signed with the county assembly. The board of trustees also plays an oversight role over all other financial and operational issues. The trustees held seven full board and two special board meetings during the FY 2017/2018.

**STATEMENT OF CORPORATE GOVERNANCE (Continued)**

**AUDIT AND RISK COMMITTEE**

In ensuring that corporate governance and integrity is enhanced in between the governance of the fund, the board of trustees has established an audit and risk committee. The committee was established to advice the board of trustees on institutional risk management and compliance. The committee held five meetings during the year. The committee also met the Fund’s external auditors KENAO to deliberate on risk management issues. The members of this committee during the year under review were:

|  |  |  |  |
| --- | --- | --- | --- |
| **S/No.** | **Name** | **Position in committee** | **Period Served** |
| 1 | Mr. Henry Mutuku | Chairperson | 1st July 2017 to 30th June 2018 |
| 2 | Mr. John Odhiambo | Member | 16th September 2016 to 30th June 2018 |
| 3 | Ms. Mary Bosire | Member | 1st July, 2016 to 30th June 2018 |
| 4 | Ms. Anne Charo | Member | 1st July, 2016 to 30th June 2018 |
| 5 | Mr. Charles Chacha | Member | 1st July, 2016 to 30th June 2018 |

**STATEMENT OF COMPLIANCE**

The board of trustees confirms that the fund has throughout the FY2017/2018 complied with all statutory and regulatory requirements and that the fund has been managed in accordance with the principles of good corporate governance.

The fund conducted an external legal audit which confirmed that the institution had complied with all relevant laws, regulations and requirements.

With regard to compliance the fund did not fully meet the requirement that the board of trustees ought to be between five in number; the fund has informed the appointing authority on this requirement.

**INTERNAL CONTROL AND RISK MANAGEMENT**

**Internal Control**

The trustees are 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.

**STATEMENT OF CORPORATE GOVERNANCE (Continued)**

**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.

**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 2017/2018.

**Risk Management**

The fund has in place a risk management framework which guides the fund in identifying, assessing and managing the risks. The fund has developed a risk register which documents and prescribes mitigating measures of all the risks both external and internal facing the fund. The risk management framework and register are regularly reviewed to incorporate any emerging issues in the operating environment. The risk management is coordinated by the head of internal audit, who reviews all the risks in the fund and updates the risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The identified risks are reported to the audit and risk committee to assist the board in the management of risks.

**STATEMENT OF CORPORATE GOVERNANCE (Continued)**

**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.

# 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. 42,930,910 from public contributions and donations, the county government and other revenues from other exchange transactions. The income from public contributions and donations amounted to KShs. 18,372,364 while KShs. 6,139,637 was earned through support from the county government and KShs 5,321,018 from fines, penalties and other levies. Income from exchange transactions contributed KShs. 13,097,891.

Public contributions and donations to the fund experienced an increase of 23% from previous year while the other sources of income increased by 10%.The fund remained liquid throughout the year experiencing high liquidity towards the end of the financial year due to increased collections from staff, support from the development partners and the county government. The fund is projecting increased support from the development partners as well as the county government.

**Cash flow**

The cash and cash equivalents increased from KShs 27,562,844 as at 30 June 2017 to KShs 71,665,346 as at 30 June 2018. There was significant cash inflow from collections from staff, public contributions and the county government.

**OPERATIONAL PERFORMANCE**

The fund’s core operating activity has been the offering car loans to members of staff. The county government has supported the fund and increased collections from members of staff has also added to the fund’s better performance.

**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

**Employees**

Human capital is a critical ingredient towards ensuring realisation of our key strategic objectives and mandate. As our stakeholders increase their expectations, it is imperative to ensure adequate and motivated human resource capacity is available to provide services.

During the year, the fund reviewed its organization structure that resulted to growth of staff from sixteen (16) to twenty (20) for increased efficiency and effectiveness to achieve the strategic objectives.

Through concerted team efforts by management and members of staff, the fund attained an overall performance contractual rating of “Very Good” as at the end of the financial year. In the same period, staff satisfaction index which measures staff perceptions improved from 76% in the previous year to 78% in the year 2017/2018.

The above achievements were as a result of several key initiatives implemented by the fund which included expanding staff experiences by rolling out of Human Resource Information System, online leave application and piloting of the 360 degrees appraisal.

The fund introduced and implemented the national values and rewarding of the best staff on a quarterly basis that has played a pivotal role. In addition, there was increased budgetary allocation to training that enabled continuous staff development and capacity building for efficiency and good corporate governance. The fund trained its senior managers on leadership, corporate governance and other professional development courses.

The fund also embarked in enhanced staff sensitizations awareness campaigns on security, HIV/AIDs, and gender & disability and re-aligned the Human Resources Policy to the Human Resource Policies and Procedures Manual for Public Service. The policy was approved by the Board of Trustees in April 2018.

**Conclusion**

We appreciate the unrelenting support from the board of trustees, management, staff, the county government, development partners and all the key stakeholders. We look forward to the continued partnerships and cooperation in areas of mutual interest in the FY 2018/2019.

# CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Corporate social responsibility is an integral part of our culture. As a responsible organisation, we respect the interests of our stakeholders – our employees, customers, suppliers and the wider community and we actively seek opportunities both to improve the environment and to contribute to the well-being of the communities around us.

During the financial year 2017/18, the fund carried out its first two (2) corporate social responsibility activities. These included collaborating with the county government and county assembly in helping with the clean-up of Nairobi city estates, an event that the county government is now doing monthly and we were also involved in tree planting exercises in primary schools in Kibra constituency.

We are looking forward to getting involved more in these and other areas, and the management team has been tasked with coming up with more CSR ideas.

**

**

# 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 activity of the Fund is to provide financing to the members of staff to purchase cars for personal use.

**Results**

The results of the Fund for the year ended June 30, 2017 are set out on pages 14 to 44.

**Trustees**

The members of the Board of Trustees who served during the year are shown on page 4. There were no changes in the Board during the FY 2017/18.

**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

Dominic Mutiso

Member of the Board

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

# STATEMENT OF MANAGEMENT’S RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a County Public Fund shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Administrator of the County Public Fund is responsible for the preparation and presentation of the Fund’s financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2018. 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, 2018, 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 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 2018 and signed on its behalf by:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Mercy Wafula

XYZ Car Loan Fund Administrator

# REPORT OF THE INDEPENDENT AUDITOR

We have audited the accompanying financial statements of XYZ car loan fund for the year ended June 30, 2018, which comprise: (i) a statement of receipts and payments; (ii) a statement of financial assets and liabilities; (iii) a statement of comparative budget and actual amounts; and (iv) a summary of significant accounting policies and other explanatory information.

**Management’s responsibility for the financial statements**

The car loan fund’s Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors’ responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the *entity’s* preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the entity as at June 30, 2018, and its receipts and payments, as well as cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Auditor General

Date

# FINANCIAL STATEMENTS

## **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 | 18,372,364 | 14,915,236 |
| Transfers from the County Government | 2 | 6,139,637 | 5,593,213 |
| Fines, penalties and other levies | 3 | 5,321,018 | 4,847,452 |
|  |  | **29,833,019** | **25,355,901** |
| **Revenue** **from** **exchange** **transactions** |  |  |  |
| Interest income | 4 | 10,232,728 | 9,322,022 |
| Other income | 5 | 2,865,163 | 2,610,167 |
|  |  | **13,097,891** | **11,932,189** |
| **Total** **revenue** |  | **42,930,910** | **37,288,090** |
| **Expenses** |  |  |  |
| Fund administration expenses | 6 | 22,192,354 | 19,626,809 |
| General expenses | 8 | 19,973,119 | 17,664,129 |
| Finance costs | 9 | 2,219,235 | 1,962,681 |
| **Total** **expenses** |  | **44,384,708** | **39,253,619** |
|  |  | **(1,453,798)** | **(1,965,529** |
| **Other gains/(losses)** |  |  |  |
| Gain/(loss) on disposal of assets | 10 | **1,761,900** | **2,290,680** |
| **Surplus/( deficit)** **for** **the** **period** |  | **308,102** | **325,151** |

The notes set out on pages 33 to 44 form an integral part of these Financial Statements

## **STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Note** | **FY2017/2018** | **FY2016/2017** |
|  |  | **KShs** | **KShs** |
| **Assets** |  |  |  |
| **Current** **assets** |  |  |  |
| Cash and cash equivalents | 11 | 71,665,346 | 27,562,844 |
| Current portion of long term receivables from exchange transactions | 12 | 3,681,917 | 5,694,583 |
| Prepayments | 13 | 3,120,269 | 4,825,917 |
| Inventories | 14 | 9,360,807 | 14,477,752 |
|  |  | **87,828,339** | **52,561,096** |
| **Non-current** **assets** |  |  |  |
| Property, plant and equipment | 15 | 3,414,371 | 9,194,290 |
| Intangible assets | 16 | 2,307,846 | 1,397,361 |
| Long term receivables from exchange transactions | 12 | 2,558,621 | 3,957,253 |
|  |  | **8,280,838** | **14,548,904** |
|  |  |  |  |
| **Total** **assets** |  | **96,109,177** | **67,110,000** |
|  |  |  |  |
| **Liabilities** |  |  |  |
| **Current** **liabilities** |  |  |  |
| Trade and other payables from exchange transactions | 17 | 1,338,750 | 1,190,000 |
| Provisions | 18 | 382,500 | 340,000 |
| Current portion of borrowings | 19 | 662,681 | 589,050 |
| Employee benefit obligations | 20 | 420,750 | 374,000 |
|  |  | **2,804,681** | **2,493,050** |
| **Non-current** **liabilities** |  |  |  |
| Non-current employee benefit obligation | 20 | 344,250 | 306,000 |
| Long term portion of borrowings | 19 | 542,194 | 481,950 |
|  |  | **886,444** | **787,950** |
| **Total** **liabilities** |  | **3,691,125** | **3,281,000** |
|  |  |  |  |
| **Net** **assets** |  | **92,418,052** | **63,829,000** |
|  |  |  |  |
| Revolving Fund |  | 83,929,603 | 59,417,603 |
| Reserves |  | 7,855,195 | 4,086,246 |
| Accumulated surplus |  | 633,254 | 325,151 |
| **Total equity** |  | **92,418,052** | **63,829,000** |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on \_\_\_\_\_\_\_\_\_\_\_ 2018 and signed by:

Administrator of the Fund Fund Accountant

Name: Marcy Wafula Name: Joseph Onsongo

ICPAK Member Number:

## **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** | 38,909,154 | - | - | **38,909,154** |
| Surplus/(deficit) for the period | - | - | 325,151 | **325,151** |
| Funds received during the year | 20,508,449 | - | - | **20,508,449** |
| Revaluation gain | - | 4,086,246 | - | **4,086,246** |
| **Balance** **as** **at** **30 June 2017** | **59,417,603** | **4,086,246** | **325,151** | **63,829,000** |
|  |  |  |  |  |
| **Balance as at 1 July 2017** | **59,417,603** | **4,086,246** | **325,151** | **63,829,000** |
| Surplus/(deficit) for the period | - | - | 308,102 | **308,102** |
| Funds received during the year | 24,512,000 | - | - | **24,512,000** |
| Revaluation gain | - | 3,768,950 | - | **3,768,950** |
| **Balance** **as** **at** **30 June 2018** | **83,929,603** | **7,855,196** | **633,254** | **92,418,052** |

## **STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Note** | **FY2017/2018** | **FY2016/2017** |
|  |  | **KShs** | **KShs** |
| **Cash** **flows** **from** **operating** **activities** |  |  |  |
| **Receipts** |  |  |  |
| Public contributions and donations |  | 18,372,364 | 14,915,236 |
| Transfers from the County Government |  | 6,139,637 | 5,593,213 |
| Interest received |  | 10,232,728 | 9,322,022 |
| Receipts from other operating activities |  | 9,948,082 | 9,748,298 |
| **Total Receipts** |  | **44,692,811** | **39,578,769** |
| **Payments** |  |  |  |
| Fund administration expenses |  | 22,192,356 | 19,626,809 |
| General expenses |  | 19,973,118 | 17,664,128 |
| Finance cost |  | 2,219,235 | 1,962,681 |
| **Total Payments** |  | **44,384,709** | **39,253,618** |
| **Net** **cash** **flows** **from** **operating** **activities** | 21 | **308,102** | **325,151** |
| **Cash flows from investing activities** |  |  |  |
| Purchase of property, plant, equipment and intangible assets |  | (6,073,326) | (4,587,359) |
| Proceeds from sale of property, plant and equipment |  | 6,594,352 | 7,998,113 |
| Proceeds from loan principal repayments |  | 20,158,935 | 1,289,000 |
| Loan disbursements paid out |  | (2,000,000) | (1,567,234) |
| **Net** **cash** **flows** **used** **in** **investing** **activities** |  | **18,679,961** | **3,132,520** |
| **Cash** **flows** **from** **financing** **activities** |  |  |  |
| Proceeds from revolving fund receipts |  | 24,512,000 | 20,508,449 |
| Additional borrowings |  | 1,204,876 | 1,071,000 |
| Repayment of borrowings |  | (602,437) | (535,500) |
| **Net** **cash** **flows** **used** **in** **financing** **activities** |  | **25,114,439** | **21,043,949** |
| **Net** **increase/(decrease)** **in** **cash** **and** **cash equivalents** |  | **44,102,502** | **24,501,620** |
| Cash and cash equivalents at 1 JULY | 15 | 27,562,844 | 3,061,224 |
| **Cash** **and** **cash** **equivalents** **at** **30 JUNE** | 15 | **71,665,346** | **27,562,844** |

## **STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2018**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Original** **budget** | **Adjustments** | **Final** **budget** | **Actual** **on comparable basis** | **Performance difference** | **% utilisation** |
|  | **2018** | **2018** | **2018** | **2018** | **2018** | **2018** |
| **Revenue** | **KShs** | **KShs** | **KShs** | **KShs** | **KShs** |  |
| Public contributions and donations | 16,003,670 | 2,368,694 | 18,372,364 | 18,372,364 | - | 100% |
| Transfers from County Govt. | 5,867,326 | 272,311 | 6,139,637 | 6,139,637 | - | 100% |
| Interest income | 12,045,671 | - | 12,045,671 | 10,232,728 | 1,812,943 | 85% |
| Other income | 8,978,367 | 500,765 | 9,979,132 | 9,948,082 | 468,950 | 105% |
| **Total** **income** | **42,895,034** | **3,141,770** | **46,036,804** | **44,692,810** | **1.343,994** | **97%** |
|  |  |  |  |  |  |  |
| **Expenses** |  |  |  |  |  |  |
| Fund administration expenses | 20,657,998 | 2,256,790 | 22,914,788 | 22,192,354 | 722,434 | 97% |
| General expenses | 18,973,118 | - | 18,973,118 | 19,973,118 | (1,000,000) | 105% |
| Finance cost | 2,078,346 | 200,788 | 2,279,134 | 2,219,235 | 59,899 | 97% |
| **Total** **expenditure** | **41,709,462** | **2,457,578** | **44,167,040** | **44,384,708** | **(217,668)** | **100%** |
| **Surplus** **for** **the** **period** | **1,185,572** | **684,192** | **1,869,764** | **308,102** | **1,561,661** | **16%** |

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### 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.

### Adoption of new and revised standards

1. **Relevant new standards and amendments to published standards effective for the year ended 30 June 2018**

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

1. **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018**

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

1. **Early adoption of standards**

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### Revenue recognition

1. **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.

1. **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.

### Budget information

The original budget for FY 2017/2018 was approved by the County Assembly on 10th May 2018. 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 KShs 3,141,770 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 12.5 of these financial statements.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### Property, plant and equipment

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

### Intangible assets

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

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

### Financial instruments

***Financial assets***

***Initial recognition and measurement***

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

***Loans and receivables***

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Held-to-maturity***

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

***Impairment of financial assets***

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

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

***Financial liabilities***

***Initial recognition and measurement***

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

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

***Loans and borrowing***

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

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### Inventories

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

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

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

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

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

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

### Provisions

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

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

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

***Contingent liabilities***

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Contingent assets***

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

### Nature and purpose of reserves

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

### Changes in accounting policies and estimates

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

### 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.

### 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)**

### Borrowing costs

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

### 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 Fund Administrator and the Fund Accountant.

### Cash and cash equivalents

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

### Comparative figures

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

### Events after the reporting period

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

### Ultimate and Holding Entity

The entity is a County Public Fund established by Section 167 of the Public Finance Management (PFM) Act 2012. Its ultimate parent is the ABC county assembly.

### Currency

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### 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.

**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 18.

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)**

### 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:

1. **Credit risk**

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

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Total amount**  **KShs** | **Fully performing**  **KShs** | **Past due**  **KShs** | **Impaired**  **KShs** |
| **At 30 June 2018** |  |  |  |  |
| Receivables from exchange transactions | 6,240,538 | 5,928,511 | 249,622 | 62,405 |
| Receivables from non-exchange transactions | - | - | - | - |
| Bank balances | 71,665,346 | 71,665,346 | - | - |
| **Total** | **77,905,884** | **77,593,857** | **249,622** | **62,405** |
|  |  |  |  |  |
| **At 30 June 2017** |  |  |  |  |
| Receivables from exchange transactions | 9,651,835 | 9,169,243 | 386,073 | 96,518 |
| Receivables from non-exchange transactions | - | - | - | - |
| Bank balances | 27,562,844 | 27,562,844 | - | - |
| **Total** | **37,214,679** | **36,732,087** | **386,073** | **96,518** |

**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 customers.

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.

1. **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 | 803,250 | 334,688 | 200,813 | 1,338,750 |
| Current portion of borrowings | 397,609 | 165,670 | 99,402 | 662,681 |
| Provisions | 229,500 | 95,625 | 57,375 | 382,500 |
| Employee benefit obligation | 206,550 | 86,063 | 51,638 | 344,250 |
| **Total** | **1,636,909** | **682,046** | **409,228** | **2,728,181** |
| **At 30 June 2017** |  |  |  |  |
| Trade payables | 714,000 | 297,500 | 178,500 | 1,190,000 |
| Current portion of borrowings | 353,430 | 147,263 | 88,358 | 589,050 |
| Provisions | 204,000 | 85,000 | 51,000 | 340,000 |
| Employee benefit obligation | 183,600 | 76,500 | 45,900 | 306,000 |
| **Total** | **1,455,030** | **606,263** | **363,758** | **2,425,050** |

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

1. **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.

1. **Foreign currency risk**

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

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

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Other currencies** | **Total** |
|  | **KShs** | **KShs** | **KShs** |
| **At 30 June 2018** |  |  |  |
| Financial assets (investments, cash ,debtors) | - | - | - |
|  |  |  |  |
| Liabilities |  |  |  |
| Trade and other payables | - | - | - |
| Borrowings | (669,375) | (535,500) | (1,204,875) |
|  |  |  |  |
| Net foreign currency asset/(liability) | **(669,375)** | **(535,500)** | **(1,204,875)** |

The Fund manages foreign exchange risk form future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

**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% | - | - |

1. **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 210,986 (2017: KShs 368,543 ). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 315,785 (2017 – KShs 267,987)

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

1. **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:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2018** |  | **2017** |
|  | **KShs** |  | **KShs** |
| Revaluation reserve | 3,768,950 |  | 4,086,245 |
| Revolving fund | 83,929,603 |  | 59,417,603 |
| Accumulated surplus | 633,254 |  | 325,151 |
| **Total funds** | **88,331,807** |  | **63,828,999** |
|  |  |  |  |
| Total borrowings | 1,204,875 |  | 1,071,000 |
| Less: cash and bank balances | (71,665,346) |  | (27,562,844) |
| Net debt/(excess cash and cash equivalents) | (70,460,471) |  | (26,491,844) |
| **Gearing** | 1% |  | 2.% |

## **NOTES TO THE FINANCIAL STATEMENTS**

### Public contributions and donations

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Donation from development partners | 12,642,036 | 9,694,903 |
| Contributions from the public | 5,730,328 | 5,220,333 |
| **Total** | **18,372,364** | **14,915,236** |

These refer to donations received from domestic and foreign donors. The funds include donations received directly by the County Government and those that are received by the National Government first and disbursed to the County.

### Transfers from County Government

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Transfers from County Govt. – operations | 3,990,764 | 3,635,589 |
| Payments by County on behalf of the entity | 2,148,873 | 1,957,625 |
| **Total** | **6,139,637** | **5,593,214** |

### Fines, penalties and other levies

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Late payment penalties | 3,458,662 | 3,150,844 |
| Fines | 1,862,356 | 1,696,608 |
| **Total** | **5,321,018** | **4,847,452** |

### Interest income

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Interest income from loans (mortgage or car loans) | 10,232,728 | 9,322,022 |
| **Total** **interest income** | **10,232,728** | **9,322,022** |

### Other income

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Insurance recoveries | 1,002,807 | 913,558 |
| Income from sale of tender documents | 1,146,066 | 1,044,067 |
| Miscellaneous income | 716,290 | 652,542 |
| **Total** **other** **income** | **2,865,163** | **2,610,167** |

### Fund administration expenses

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Staff costs (Note 7) | 16,644,265 | 14,720,107 |
| Loan processing costs | 4,438,471 | 3,952,362 |
| Professional services costs | 1,109,618 | 954,340 |
| **Total** | **22,192,354** | **19,626,809** |

### Staff costs

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Salaries and wages | 10,818,773 | 9,568,070 |
| Staff gratuity | 2,496,640 | 2,208,016 |
| Staff training expenses | 1,664,427 | 1,472,011 |
| Social security contribution | 1,165,099 | 1,030,407 |
| Other staff costs | 499,326 | 441,603 |
| **Total** | **16,644,265** | **14,720,107** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### General expenses

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Consumables | 1,997,312 | 1,766,413 |
| Electricity and water expenses | 2,291,588 | 1,971,911 |
| Fuel and oil costs | 2,197,043 | 1,943,054 |
| Insurance costs | 1,797,581 | 1,589,772 |
| Postage | 499,328 | 441,603 |
| Printing and stationery | 599,194 | 529,924 |
| Rental costs | 998,656 | 883,206 |
| Security costs | 798,925 | 706,565 |
| Telecommunication | 1,597,849 | 1,413,130 |
| Hospitality | 299,597 | 264,962 |
| Depreciation and amortization costs | 6,796,956 | 5,877,212 |
| Other expenses | 99,090 | 276,377 |
| **Total** | **19,973,119** | **17,664,129** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### Finance costs

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Interest on Bank overdrafts | 1,220,579 | 1,079,475 |
| Interest on loans from banks | 998,656 | 883,206 |
| **Total** | **2,219,235** | **1,962,681** |

### Gain on disposal of assets

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Property, plant and equipment | 1,761,900 | 2,290,680 |
| Intangible assets | - | - |
| **Total** | **1,761,900** | **2,290,680** |

### Cash and cash equivalents

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Fixed deposits account | 14,534,144 | 10,134,427 |
| On – call deposits | 25,289,318 | 3,646,995 |
| Current account | 27,473,507 | 7,025,138 |
| Others | 4,368,377 | 6,756,284 |
| **Total** **cash** **and** **cash** **equivalents** | **71,665,346** | **27,562,844** |

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **FY2017/2018** | **FY2016/2017** |
| **Financial institution** | **Account number** | **KShs** | **KShs** |
| 1. **Fixed deposits account** |  |  |  |
| Kenya Commercial bank | 117998 | 8,720,486 | 6,080,656 |
| Equity Bank, etc | 104845 | 5,813,657 | 4,053,771 |
| **Sub- total** |  | **14,534,143** | **10,134,427** |
|  |  |  |  |
| 1. **On - call deposits** |  |  |  |
| Kenya Commercial bank | 115583 | 15,173,591 | 2,188,197 |
| Equity Bank - etc | 103494 | 10,115,727 | 1,458,798 |
| **Sub- total** |  | **25,289,318** | **3,646,995** |
|  |  |  |  |
| 1. **Current account** |  |  |  |
| Kenya Commercial bank | 115585 | 16,484,104 | 4,215,083 |
| Bank B | 103496 | 10,989,403 | 2,810,055 |
| **Sub- total** |  | **27,473,507** | **7,025,138** |
|  |  |  |  |
| 1. **Others(specify)** |  |  |  |
| Cash in transit |  | 1,747,351 | 2,702,514 |
| Cash in hand |  | 655,257 | 1,013,443 |
| M Pesa |  | 1,965,770 | 3,040,327 |
| **Sub- total** |  | **4,368,378** | **6,756,284** |
| **Grand total** |  | **71,665,346** | **27,562,844** |

### Receivables from exchange transactions

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| **Current Receivables** |  |  |
| Interest receivable | 748,865 | 1,158,220 |
| Current loan repayments due | 2,184,188 | 3,378,142 |
| Other exchange debtors | 936,081 | 1,447,775 |
| Less: impairment allowance | (187,217) | (289,554) |
| **Total Current receivables** | **3,681,917** | **5,694,583** |
|  |  |  |
| **Non-Current receivables** |  |  |
| Long term loan repayments due | 2,558,621 | 3,957,253 |
| **Total Non-current receivables** | **2,558,621** | **3,957,253** |
| **Total** **receivables from exchange transactions** | **6,240,538** | **9,651,836** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### Prepayments

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Prepaid rent | 1,716,148 | 1,654,255 |
| Prepaid insurance | 872,161 | 2,895,550 |
| Prepaid electricity costs | 531,960 | 276,112 |
| **Total** | **3,120,269** | **4,825,917** |

### Inventories

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Consumable stores | 4,215,363 | 6,514,989 |
| Spare parts and meters | 3,744,323 | 5,791,101 |
| Catering | 1,404,121 | 2,171,662 |
| **Total** **inventories** **at** **the** **lower** **of** **cost** **and** **net** **realizable** **value** | **9,363,807** | **14,477,752** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### Property, plant and equipment

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Land and**  **Buildings** | **Motor vehicles** | **Furniture and fittings** | **Computers and**  **office equipment** | **Total** |
| **Cost** | **KShs** | **KShs** | **KShs** | **KShs** | **KShs** |
| **At 1st July 2016** | **10,582,965** | **10,600,235** | **9,727,947** | **4,654,030** | **35,565,177** |
| Additions | - | 2,609,834 | 845,265 | 1,132,260 | **4,587,359** |
| Disposals | - | (3,397,023) | **(3,609,047)** | (992,043) | **(7,998,113)** |
| Transfers/adjustments | (276,523) | (178,956) | 387,935 | (290,252) | **(357,796)** |
| **At 30th June 2017** | **10,306,442** | **9,634,090** | **7,352,100** | **4,503,995** | **31,796,627** |
| **At 1st July 2017** | **10,306,442** | **9,634,090** | **7,352,100** | **4,503,995** | **31,796,627** |
| Additions | - | 1,174,425 | 3,803,695 | 1,095,206 | **6,073,326** |
| Disposals | - | (4,191,069) | (1,827,141) | (576,142) | **(6,594,352)** |
| Transfer/adjustments | (829,569) | (536,869) | (763,807) | (894,076) | **(3,024,320)** |
| **At 30th June 2018** | **9,476,873** | **6,080,577** | **8,564,847** | **4,128,984** | **28,251,281** |
| **Depreciation and impairment** |  |  |  |  |  |
| At 1st July 2016 | (5,042,800) | (2,960,014) | (5,176,055) | (2,461,380) | (15,640,249) |
| Depreciation | (515,321) | (2,408,523) | (2,205,630) | (1,362,565) | (6,492,039) |
| Impairment | (101,712) | (99,840) | (207,042) | (61,455) | (470,049) |
| **At 30th June 2017** | **(5,659,833)** | **(5,468,377)** | **(7,588,727)** | **(3,885,400)** | **22,602,337** |
| **At 1st July 2017** | **(5,659,833)** | **(5,468,377)** | **(7,588,727)** | **(3,885,400)** | **22,602,337** |
| Depreciation | (473,844) | (1,520,144) | (2,276,618) | (1,282,182) | **(5,552,788)** |
| Disposals | - | 1,159,520 | 2,277,596 | 1,780,300 | **5,217,416** |
| Impairment | (64,068) | (127,936) | (828,168) | (647,382) | **(1,667,554)** |
| Transfer/adjustment | (51,255) | (62,348) | (66,253) | (51,791) | **(231,647)** |
| **At 30th June 2018** | **(6,249,000)** | **(6,019,285)** | **(8,482,170)** | **(4,086,455)** | **(24,836,910)** |
| **Net book values** |  |  |  |  |  |
| **At 30th June 2017** | **4,646,609** | **4,165,713** | **-236,627** | **618,595** | **9,194,290** |
| **At 30th June 2018** | **3,227,873** | **61,292** | **82,677** | **42,529** | **3,414,371** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### Intangible assets-software

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| **Cost** |  |  |
| **At beginning of the year** | 2,786,207 | 1,488,506 |
| Additions | 1,219,668 | 1,297,701 |
| **At end of the year** | **4,005,875** | **2,786,207** |
| **Amortization and impairment** |  |  |
| **At beginning of the year** | 1,268,657 | 944,232 |
| Amortization | 304,917 | 324,425 |
| **At end of the year** | **1,573,574** | **1,268,657** |
| Impairment loss | 124,455 | 120,189 |
| **At end of the year** | **1,698,029** | **1,388,846** |
| **NBV** | **2,307,846** | **1,397,361** |

### Trade and other payables from exchange transactions

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Trade payables | 602,438 | 535,500 |
| Refundable deposits | 267,750 | 238,000 |
| Accrued expenses | 334,688 | 297,500 |
| Other payables | 133,874 | 119,000 |
| **Total** **trade** **and** **other** **payables** | **1,338,750** | **1,190,000** |

### Provisions

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **Leave provision** | **Bonus provision** | **Other provision** | **Total** |
|  | **KShs** | **KShs** | **KShs** | **KShs** |
| Balance at the beginning of the year | 71,910 | 30,638 | 71,719 | **174,267** |
| Additional Provisions | 105,188 | 42,075 | 89,887 | **237,150** |
| Provision utilised | (18,360) | (3,672) | (8,568) | **(30,600)** |
| Change due to discount and time value for money | (11,475) | (2,295) | (53,397) | **(67,167)** |
| Transfers from non -current provisions | 27,540 | 16,524 | 24,786 | **68,850** |
| **Total provisions** | **174,803** | **83,270** | **124,427** | **382,500** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### Borrowings

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| **Balance at beginning of the period** | **1,071,000** | **654,500** |
| External borrowings during the year | 535,500 | 476,000 |
| Domestic borrowings during the year | 669,375 | 595,000 |
| Repayments of external borrowings during the period | (334,688) | (297,500) |
| Repayments of domestics borrowings during the period | (736,312) | (357,000) |
| **Balance at end of the period** | **1,204,875** | **1,071,000** |

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

|  |  |  |
| --- | --- | --- |
|  | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| **External Borrowings** |  |  |
| Dollar denominated loan from ABC Bank | 208,845 | 185,640 |
| Sterling Pound denominated loan from XYZ Bank | 192,780 | 171,360 |
| Euro denominated loan from Dfid | 133,875 | 119,000 |
| **Domestic Borrowings** |  |  |
| Kenya Shilling loan from KCB | 214,200 | 190,400 |
| Kenya Shilling loan from Barclays Bank | 200,813 | 178,500 |
| Kenya Shilling loan from Consolidated Bank | 167,344 | 148,750 |
| Borrowings from other government institutions | 87,019 | 77,350 |
| **Total balance at end of the year** | **1,204,875** | **1,071,000** |

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

|  |  |  |
| --- | --- | --- |
| **Description** | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| Short term borrowings(current portion) | 662,681 | 589,050 |
| Long term borrowings | 542,194 | 481,950 |
| **Total** | **1,204,875** | **1,071,000** |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### Employee benefit obligations

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Description** | **Defined benefit plan** | **Post employment medical benefits** | **Other Provisions** | **Total** |
|  | **KShs** | **KShs** | **KShs** | **KShs** |
| Current benefit obligation | 168,300 | 147,262 | 105,188 | **420,750** |
| Non-current benefit obligation | 137,700 | 120,488 | 86,062 | **344,250** |
| **Total** **employee benefits obligation** | **306,000** | **267,750** | **191,250** | **765,000** |

### Cash generated from operations

|  |  |  |
| --- | --- | --- |
|  | **FY2017/2018** | **FY2016/2017** |
|  | **KShs** | **KShs** |
| **Surplus for the year before tax** | **308,102** | **325,151** |
| **Adjusted for:** |  |  |
| Depreciation | 5,552,788 | 6,492,039 |
| Gains/ losses on disposal of assets | (1,761,900) | (2,290,680) |
| Interest income | (10,232,728) | (9,322,022) |
| Finance cost | 2,219,235 | 1,962,681 |
| **Working Capital adjustments** |  |  |
| Decrease in inventory | 5,116,945 | 1,549,131 |
| (Increase )/Decrease in receivables | (1,159,222) | 1,032,753 |
| Increase in payables | 264,881 | 576,098 |
| **Net cash flow from operating activities** | **308,102** | **325,151** |

### Related party balances

1. **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:

1. ABC County Assembly;
2. Board of Trustees; and
3. Key management personnel.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

1. **Related party transactions**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **FY2017/2018** |  | **FY2016/2017** |
|  | **KShs** |  | **KShs** |
| Transfers from related parties’ | 2,982,305 |  | 1,184,075 |
| Transfers to related parties | 1,592,037 |  | 1,532,834 |

1. **Key management remuneration**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **FY2017/2018** |  | **FY2016/2017** |
|  | **KShs** |  | **KShs** |
| Board of Trustees | 3,888,760 |  | 3,888,760 |
| Key Management Compensation | 3,752,800 |  | 3,377,520 |
| **Total** | **7,641,560** |  | **7,266,280** |

1. **Due from related parties**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **FY2017/2018** |  | **FY2016/2017** |
|  | **KShs** |  | **KShs** |
| Due from parent Ministry | 2,527,694 |  | 2,333,256 |
| Due from County Government | 2,064,040 |  | 1,519,884 |
| **Total** | **4,591,734** |  | **3,853,140** |

1. **Due to related parties**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **FY2017/2018** |  | **FY2016/2017** |
|  | **KShs** |  | **KShs** |
| Due to parent Ministry | 1,011,078 |  | 1,399,954 |
| Due to County Government | 1,857,636 |  | 1,671,872 |
| Due to Key management personnel | 1,125,840 |  | 1,182,132 |
| **Total** | **3,994,554** |  | **4,253,958** |

### Contingent assets and contingent liabilities

|  |  |  |  |
| --- | --- | --- | --- |
| **Contingent liabilities** | **FY2017/2018** |  | **FY2016/2017** |
|  | **KShs** |  | **KShs** |
| Court case xxx against the Fund | 1,238,424 |  | 1,201,271 |
| Bank guarantees | 1,486,109 |  | 1,337,498 |
| **Total** | **2,724,533** |  | **2,538,769** |

*(Give details)*

# PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

| **Reference No. on the external audit Report** | **Issue / Observations from Auditor** | **Management comments** | **Focal Point person to resolve the issue *(Name and designation)*** | **Status:**  ***(Resolved / Not Resolved)*** | **Timeframe:**  ***(Put a date when you expect the issue to be resolved)*** |
| --- | --- | --- | --- | --- | --- |
| 1.0 | Overstatement of other revenues by KShs 37M | This is to be investigated and necessary adjustments made | John Opondo -Director of Revenue | Not resolved | To be resolved by 15 March 2019 |
| 2.1 | Non maintenance of a fixed asset register | We will make sure that this is prepared and fully updated | Mary Mogaka – Senior Accountant | Not resolved | To be finalised by 30 June 2019 |
| 3.21 | Pending bills schedule not provided | The schedule has now been prepared and passed over to the auditors | Peter Muthoka | Not Resolved | To be finalised by 31 January 2018 |

***Guidance Notes:***

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