



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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REPORT

OF

THE AUDITOR-GENERAL

ON

**KWALE COUNTY TRADE
REVOLVING FUND**

**FOR THE YEAR ENDED
30 JUNE, 2019**





KWALE COUNTY TRADE REVOLVING FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30th, 2019

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

**Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019**

TABLE OF CONTENTS

TABLE OF CONTENTS	i
1. KEY ENTITY INFORMATION AND MANAGEMENT	ii
2. THE BOARD OF TRUSTEES	1
3. MANAGEMENT TEAM	4
4. BOARD/FUND CHAIRPERSON'S REPORT	5
5. REPORT OF THE FUND ADMINISTRATOR	6
6. CORPORATE GOVERNANCE STATEMENT	7
7. MANAGEMENT DISCUSSION AND ANALYSIS	8
8. REPORT OF THE TRUSTEES	9
9. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES	10
10. REPORT OF THE INDEPENDENT AUDITOR	11
11. FINANCIAL STATEMENTS	12
12. NOTES TO THE FINANCIAL STATEMENTS	30

1. KEY ENTITY INFORMATION AND MANAGEMENT

a. Background information

Kwale County Trade Revolving Fund is established by and derives its authority and accountability from Kwale County Trade Revolving Fund Act 2014 on Sept 2014. The Fund is wholly owned by the County Government of Kwale and is domiciled in Kenya.

The fund's objective is to;

- (a) Catalyse wealth creation;
- (b) Establish the Kwale County Trade Revolving Fund Board;
- (c) Establish the mechanisms for the provision of capital to:
 - (i) successful candidates engaged in self-employment- creating activities that contribute to value addition of raw materials;
 - (ii) businesses that seek to expand their production from existing capacities;
 - (iii) Activities that stimulate and promote both internal and international trade.

The Fund's principal activity is to advance loans (low cost credit) to businesspeople within the county repayable within Twenty-Four (24) months.

- a. Individual business persons can borrow a minimum of Kshs. 30,000 and a maximum of Kshs.1, 500,000.
- b. Legal persons (companies, cooperative societies and associations) can borrow a minimum of Kshs.150, 000 and a maximum of Kshs.3, 000,000.

b. Principal Activities

The principal activity/mission/ mandate of the Fund is to;

- i. have an inbuilt capacity building programme to build business management and entrepreneurial skills of traders, customized to address the individual needs of such traders;
- ii. provide a business mentoring platform for business people amongst themselves and with specialized experts in business and entrepreneurship disciplines; and
- iii. Nurture and grow business ideas into tangible businesses and products.

c. Fund Board

Ref	Name	Position
1.	Bishop David Munyaka	Chairman
2.	Mejumaa Gari	Member
3.	Sophia Ali	Member
4.	Mwamtenda Ningome	Member

**Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019**

5.	Athuman Mwatunza	Member
6.	Emmanuel Yongo	Member
7.	Nyamawih Charo	Fund Manager/Secretary to the Board

d. Key Management

Ref	Name	Position
1.	Nyamawih Charo	Fund Administrator
2.	Athuman Mwatunza	Fund Bank Account Signatory
3.	Anthony Mwamunga	Fund Bank Account Signatory
4.	Joseph Omwenga	Fund Bank Account Signatory

e. Registered Offices

P. O. Box 4 – 80403.
Cooperative House
Kombani - Kinango Road,
Kwale, KENYA

f. Fund Contacts

Telephone: (254) 040 320 6100
E-mail: info@trade.kwale.go.ke
Website: www.kwalecountygov.com

g. Fund Bankers

Equity Bank (K) Ltd,
P. O. Box 167-80403
Kwale, Kenya.

h. Independent Auditors




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

i. Principal Legal Adviser

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

**Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019**

2. THE BOARD OF TRUSTEES

Member Photo	Details and Qualifications
	<p>Bishop David Munyaka, Fund Board Chairman</p> <p>He is a holder of Diploma in Theology and currently pursuing a degree in the same. He was ordained a Bishop on the 11th Apr 2004 in the New Apostolic Church of Kenya.</p> <p>Bishop David is also a farmer and business man.</p>
	<p>Nyamawih Charo, Fund Administrator</p> <p>Charo holds a MSc. International Money and Banking – University of Bath, UK and BSc in Economics & Statistics from Egerton University, Kenya.</p>
	<p>Mejuma Gari – Member Board</p> <p>Mejumaa holds a Higher Diploma in Institutional Management and over 25 years in catering.</p>

**Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019**





Sofia Ali Silawa – Member of the Board

She has vast experience in business and farming spanning over 20 years. Sofia worked for 8 years as office messenger at Bamburi Cement.







Ningome Mwamtenda –Member of Board.

Ningome holds a degree in Community Development/Environmental Studies with over 20 years' experience in community development, social services related areas, senior management and strategic leadership development.

	<p>Athuman Mwatunza – Member of the Board</p> <p>Is the County Director Economic Planning and has over 10 years in the banking industry in various managerial positions.</p> <p>He holds a Master’s degree in Business Administration- Strategic Management and Bachelor's degree in Economics from the University of Nairobi.</p>
	<p>Emmanuel Yongo, Member</p> <p>He is a graduate from Strathmore University with a Bachelor's of commerce degree in Finance and Business Administration majors.</p> <p>Currently serving as the County Trade Officer.</p>

**Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019**

3. MANAGEMENT TEAM

Name	Details of qualifications and experience
	<p>Hon. Ramadhani Masudi Bungale Ag. CECM Tourism & Enterprise Development</p> <p>He is a graduate from the University of Nairobi with a Master's in Business Administration and a Bachelor's Degree in Education Arts, Accounting and Economics.</p> <p>Previously worked for the National Constituency Development Fund as Fund manager.</p>
<p>1.</p> 	<p>Mr Mwinzagu Anthony Mwamunga, Chief Officer Tourism & Enterprise Development</p> <p>Graduated in 1999 with bachelor's degree in Information & Media Technology Moi University Attained ITIL (Information Technology Infrastructure Library) ,Attained CCNA 2001 Previously worked for: CKRC, Mombasa water & sewerage Co and Pwani Telecoms Ltd.</p>
<p>2.</p> 	<p>Nyamawih Charo, Fund Administrator</p> <p>Charo holds an MSc. International Money and Banking – University of Bath, UK and BSc in Economics & Statistics from Egerton University, Kenya. Previously worked for Equity Bank.</p>
<p>3.</p> 	<p>Joseph Omwenga, Fund Accountant BBA Finance KeMU and CPA(K)</p> <p>Member of ICPAK, has several years' experience with the National government and KRA as Revenue and financial Accountant respectively Currently serving as Principal Accountant Trade.</p>

4. BOARD/FUND CHAIRPERSON'S REPORT

Welcome to our FY 2018/19 annual report, the forth since inception of the fund.

During the year, we welcomed Mr Nyamawih Charo as the new fund administrator, taking over from Hon. Ramadhan Masudi Bungale, the then Chief Officer Trade & Cooperative Development. Charo appointed to the board following his assumption of office as the Director of Trade & Cooperative Development. Join me in welcoming him and promise to continue offering him the support he needs as we turn potential into wealth.

I am happy to report that, by close of the financial year, more than 1300 businesses had benefited from the fund cumulatively accounting to more than Ksh. 123 million worth of capital injected as operating capital to our SMEs, Individual businessmen and women, cooperative societies among others. Our key beneficiaries include; Tabasamu Sacco, formerly, the Kwale Teachers' Sacco.

I am delighted to express that, currently the fund has its footprint in each of the 20 wards thereby transforming livelihoods of the citizen of Kwale County. The fund has benefited all demographics be it women, youth, senior citizens, groups in business. However, I encourage more of people living with disability to apply as our analysis of the fund shows that there are very few who have benefited.

In concluding, I look forward to yet another transformative financial year, marked with success stories and continued supporting our business people and corporations within the County.

Signed:  _____

Bishop David Munyaka

Board Chairman

**Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019**

5. REPORT OF THE FUND ADMINISTRATOR

In the FY 2018/19 report, I will highlight on the general performance of the fund and give an outlook into the future of the fund.

Firstly, I appreciate the appointing authority for bestowing me the opportunity to join a dedicated and passionate team, working round the clock towards turning potential into wealth of the people of Kwale County. The fund being administered by a board on voluntary terms has seen growth in the number of staff supporting its activities having employed four new employees whom alongside other duties are available to discharge those of the fund. The fund human resource has grown from a single staff to the current 8, with a full-time dedicated fund administrator.

We are happy to report that, within the year, we received over Ksh. 13 million as loan repayments.



.....
Nyamawih Charo

Fund Administrator

6. CORPORATE GOVERNANCE STATEMENT

In this reporting financial year, there were three board meetings that mainly focused on recovery of the disbursed loan. Since then, significant improvement has been noted. During those meeting, engagement of a debt collector was approved. Munyao and Kashindo Advocates were assigned with recovery of loans that had been classified as delinquent.

The fund board established by the Kwale County Revolving Fund Act 2014, takes cognisance of the need to plan and groom for successors should some of the existing staff exit the management more so, the fund administrator role. Therefore, the board co-opted Emmanuel Yongo in place of Heidi Mumia who left for other duties within the public service. Emmanuel Yongo therefore represents the department in the board and acting as the secretary in consultation with the fund administrator.

Appointment of the board members is bestowed in the CECM. Once the board is constituted, the members are given an opportunity to elect a chairman from among themselves. The chairman is responsible for presiding over all board meetings and any other business as the board may direct. Members are appointed for a 3-year term renewable once. The board also consists of one ex-officio designated as the fund administrator who is the secretary to the board.

**Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019**

7. MANAGEMENT DISCUSSION AND ANALYSIS

In the FY 2018 – 2019, the fund only operated on funds recovered from previously disbursed loans. With the current loan repayment trends, the fund may suffer from high provisions owing to increasingly portfolio of loans put under watch.

Following a letter from the Controller of Budget on the fund's legislation compliance to the PFM Act 2012, there is currently an on-going amendment on the existing funds policies and regulations in order to improve efficiency and service delivery to the public.

For the first time since inception of the fund, the period under review was successfully audited by the auditor general.

The current fund board first time ended in December 2018. The management is making plans for their replacement or reappointment to ensure no vacuum in the management.

**Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019**

8. REPORT OF THE TRUSTEES

The Trustees submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the Fund affairs.

Principal activities

The principal activities of the Fund are extending low cost credit facilities to business men within the county.

Results

The results of the Fund for the year ended June 30, 2019 are set out on page 12.

Trustees

The members of the Board of Trustees who served during the year are shown on page 1. There were no changes in the Board during the financial year.

Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of the Kwale Trade Revolving Fund for the period ended June 30, 2019.

By Order of the Board



Member of the Board

Date: 23/09/19

9. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of Kwale Trade Revolving Fund established by Kwale County Trade Revolving Fund Act, 2014 shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The management is responsible for the preparation and presentation of the Fund's financial statements. The financial statements give a true and fair view of the Fund for and as at the end of FY 2019 which ended on June 30, 2019. The management is also responsible for

- i. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund;
- ii. Designing, implementing and maintaining internal controls relevant to preparation and fair presentation of the financial statements;
- iii. Safeguarding the assets of the Fund;
- iv. Selecting and applying appropriate accounting policies; and
- v. Making accounting estimates that are reasonable in the circumstances.

The management of the fund accepts responsibility for the Fund's financial statements. The financial statements were prepared the International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Kwale County Trade Revolving Fund Act, 2014. The management of the fund confirm completeness of the accounting records maintained, which were relied during preparation of the Fund's financial statements.

In preparing the financial statements, the Administrator 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

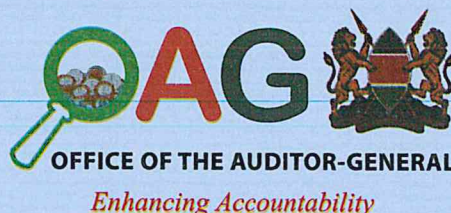
The Fund's financial statements were approved by the Board on 23 | 09 2019 and signed on its behalf by:



.....
Fund Administrator
Kwale County Trade Revolving Fund

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON KWALE COUNTY TRADE REVOLVING FUND FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kwale County Trade Revolving Fund set out on pages 12 to 41, which comprise of the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kwale County Trade Revolving Fund as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kwale County Trade Revolving Fund Act, 2014 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in the Financial Statements

The financial statements for the year ended 30 June, 2019 submitted for audit had the following anomalies:

- i) The statement of financial position reflects comparative balances of Kshs.114,034,258 and Kshs.114,033,103 for net assets and total equity respectively, resulting into a variance of Kshs.1,155 which was not explained or reconciled.
- ii) The statement of changes in net assets reflects prior year adjustments of Kshs.5,578,827 whose nature has not been disclosed in the financial statements.
- iii) The statement of cashflows reflects a balance of Kshs.21,415,602 in respect of cash and cash equivalents as at 30 June, 2019. However, the balance is at variance with

the cash and cash equivalents balance of Kshs.24,439,232 reflected in the statement of financial position, resulting into an unexplained variance of Kshs.3,023,630. Further, the net cash flows from operating activities balance of Kshs.5,483,643 reflected in the statement of financial position is at variance with cash generated from operations balance of Kshs.5,756,371 reflected in the corresponding Note 21 to the financial statements. The difference of Kshs.272,728 between the two balances was not reconciled.

- iv) The statement of comparison of budget and actual amounts reflects interest income revenue of Kshs.5,624,334 which differs with the interest income of Kshs.8,640,956 reflected in the statement of financial performance by Kshs.3,016,622.

Consequently, the accuracy and completeness of the financial statements could not be confirmed.

2.0 Long Outstanding Bank Reconciliation Items

The statement of financial position reflects cash and cash equivalents balance of Kshs.24,439,232. As disclosed in Note 11 to the financial statements, the balance included Kshs.24,323,658 held in a current account at a local bank. However, the bank reconciliation statement for the month of June, 2019 provided for audit, reflected receipts in bank amounting to Kshs.2,769,000 not recorded in the cash book. Further, the bank reconciliation statement reflected payments in the bank statement amounting to Kshs.13,920 not yet recorded in cash book. The Management did not provide satisfactory explanation on why the cashbook was not updated.

Under the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.24,439,232 could not be confirmed.

3.0 Doubtful Recoverability of Long Outstanding Loans

The statement of financial position and Note 12 to the financial statements reflect a balance of Kshs.79,911,131 in respect of long-term receivables from exchange transactions. Information available indicated that the debts had been outstanding for more than two (2) years, contrary to Section 11 of the Kwale County Trade Revolving Fund Act, 2014, which provides that borrowed loans are to be settled within twenty-four (24) months. Therefore, the borrowers were in default.

Further, as previously reported, a debt collection framework contract provided for audit verification, signed between the Fund and a law firm, provided that the law firm was to collect 65% of the non-performing loans of Kshs.46,300,000 as at 1 July, 2017 within a period of twelve (12) months and give monthly collection reports or loans status reports. However, as at the time of the audit in the month of October 2019, there was no evidence of any loan amount recovered by the firm or the monthly updates issued on the loans' progress. In addition, no provision for bad and doubtful debts was made against the receivables although recoverability of some debts was doubtful.

Consequently, the accuracy and full recoverability of the long-term receivables from exchange transactions balance of Kshs.79,911,131 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kwale County Trade Revolving Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

These financial statements are transitional statements from cash basis accounting framework to International Public Sector Accounting Standards (Accruals Basis). Therefore, the audit is cognizant of International Public Sector Accounting Standard 33 (First time adoption of accrual basis) which grants the entity certain exemptions for fair presentation of the financial statements and its ability to assert compliance with accrual basis International Public Sector Accounting Standards for a period of at least three (3) years before full compliance.

Key Audit Matters

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

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflected budgeted and actual expenditure of Kshs.3,101,000 and Kshs.140,691, respectively resulting into an under-expenditure of Kshs.2,960,309 or 95%. In the circumstances, service delivery to the people in Kwale County may have been negatively affected.

2. Non-Disclosure of Progress on Prior Year Audit Matters

Management action on prior year audit matters has not been disclosed under the Progress on Follow Up of Auditor Recommendations section of the financial statements as required by the Public Sector Accounting Standards Board (PSASB). It could therefore not be confirmed whether the issues had been resolved as at 30 June, 2019.

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.

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1.0 Lack of System for Tracking of Loans

As previously reported, the Fund Management processed, approved and disbursed loans but individual files for each of the successful applicants were not maintained. This resulted in approval and disbursement of loans without loan identification numbers, making it difficult to match repayments to borrowers. Further, the Management had not automated its systems to automatically accrue interest and penalties on outstanding loans which was computed manually. The manual system was prone to errors and inefficiencies.

In addition, records availed for audit review indicated that no loans were disbursed during the current financial year although a total of Kshs.123,488,000 had been disbursed to successful applicants as at 30 June, 2018. However, it was noted that the Management disburses loans directly to successful applicants through issuance of cheques instead of contracting a financial institution to disburse the same and receive repayments. Such arrangement will leverage on the existing financial institution's systems to efficiently disburse, collect repayments and record the same, thereby enhancing efficiency and minimizing administrative costs relating to processing of cheques and preparation of reconciliations.

2.0 Lack of Audit Committee

Kwale County Trade Revolving Fund had not established an Audit Committee by the time of audit, in the month of October 2019, contrary to Regulation 167 (1) of the Public Finance Management (County Governments) Regulations, 2015 which requires each county government entity to establish an Audit Committee. The functions of the Audit Committee as provided under Regulation 168 of Public Finance Management (County

Governments) Regulations, 2015 is to support the Accounting Officers with regard to their responsibilities on issues of risk, internal control and governance and associated assurance.

The Fund Management was, therefore, in breach of Law and as a result, the effectiveness of Fund's internal controls and risk management was not assured.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to wind up the Fund or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error,

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

24 August, 2021

11. FINANCIAL STATEMENTS

a. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2019

	Note	FY2018/2019	FY2017/2018
		KShs	KShs
			RESTATED
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	8,640,956	17,149,245
Other income	5	-	-
		-	-
Total revenue		8,640,956	17,149,245
Expenses			
Fund administration expenses	6	-	2,000,000
Staff costs	7	97,200	142,740
General expenses	8	25,481	565,700
Bank charges	9	18,010	3,465
Total expenses		140,691	2,711,905
Gain/loss on disposal of assets	10		
Surplus/(deficit) for the period		8,500,265	14,437,340

The notes set out on pages 30 to 40 form an integral part of these Financial Statements

Note that the financial statements for the year 2017/2018 have been restated to adjust for interest Income earned which was previously recognised on cash basis instead of accrual basis of accounting as required under the international Public Sector accounting Standard (IPSAS).

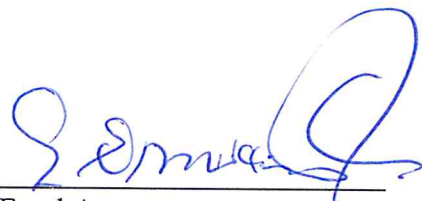
b. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

	Note	FY2018/2019 (Ksh.)	FY2017/2018 (Ksh.)
			RESTATED
Assets			
Current assets			
Cash and cash equivalents	11	24,439,232	7,617,402
Current portion of long-term receivables from exchange transactions (Interest due)	12	23,761,832	18,192,786
Prepayments	13	-	-
Inventories	14	-	-
		48,201,064	25,810,188
Non-current assets			
Property, plant and equipment	15		
Intangible assets	16		
Long term receivables from exchange transactions (Outstanding Loans).	12	79,911,131	88,224,070
Total assets		128,112,195	114,034,258
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		128,112,195	114,034,258
Revolving Fund		98,793,879	98,793,879
Reserves		-	-
Accumulated surplus		29,318,316	15,239,224
Total Equity		128,112,195	114,033,103

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 23/9/ 2019 and signed by:



Administrator of the Fund
Name: Nyamawih Charo



Fund Accountant
Name: Joseph Omwenga

**Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019**

**c. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH
JUNE 2019**

	Revolving Fund	Revalu ation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1 July 2017	98,793,879	-	801,884	99,595,763
Surplus/(deficit) for the period	-	-	14,437,340	14,437,340
Funds received during the year	-	-	-	-
Revaluation gain	-	-	-	-
Balance as at 30th June 2018	98,793,879	-	15,239,224	114,033,103
Balance as at 1 July 2018	98,793,879	-	15,239,224	114,033,103
Surplus/(deficit) for the period	-	-	8,500,265	8,500,265
Funds received during the year	-	-	-	-
Revaluation gain	-	-	-	-
Prior year adjustments			5,578,827	5,578,827
Balance as at 30th June 2019	98,793,879	-	29,318,116	128,112,195

d. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2019

	Note	FY2018/2019 (KShs)	FY2017/2018 (KShs)
Cash flows from operating activities			
Receipts			
Public contributions and donations		-	
Transfers from the County Government		-	
Interest received	4	5,624,334	1,982,908
Receipts from other operating activities		-	
Total Receipts		5,624,334	1,982,908
Payments			
Fund administration expenses			2,000,000
Staff cost	7	97,200	142,740
General expenses	8	25,481	565,700
Bank charges	9	18,010	3,465
Total Payments		140,691	2,711,905
Net cash flows from operating activities	25	5,483,643	(728,997)
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets			
Proceeds from sale of property, plant and equipment		-	-
Proceeds from loan principal repayments		8,314,557	6,167,355
Loan disbursements paid out			
Net cash flows used in investing activities		8,314,557	6,167,355
Cash flows from financing activities			
Proceeds from revolving fund receipts			
Additional borrowings		-	-
Repayment of borrowings		-	-
Net cash flows used in financing activities		-	-
Net increase/(decrease)in cash and cash equivalents		13,798,200	5,438,358
Cash and cash equivalents at 1 st JULY		7,617,402	2,179,044
Cash and cash equivalents at 30 JUNE		21,415,602	7,617,402

e. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2019

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilization
	2018/2019	2018/2019	2018/2019	2018/2019	2018/2019	2018/2019
Revenue	KShs	KShs	KShs	KShs	KShs	KSh
Public contributions and donations						
Transfers from County Govt.						
Interest income	5,500,000		5,500,000	5,624,334	124,334	102%
Other income						
Total income	5,500,000		5,500,000	5,624,334	124,334	102%
Expenses						
Fund administration expenses	150,000		150,000	97,200	52,800	65%
General expenses	2,946,000		2,946,000	25,481	2,920,219	1%
Bank charges	5,000		5,000	18,010	(13,010)	
Total expenditure	3,101,000		3,101,000	140,691	2,986,029	5%
Surplus for the period						

g.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 allocation for FY 2018/2019 was approved by the Fund Board on 30th June 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.

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 11.11 of these financial statements.

f. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

The Fund's financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) No 33 that allows disclosure using accrual basis within the first three years of adoption. The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Fund. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. Adoption of new and revised standards

a) Relevant new standards and amendments to published standards effective for the year ended 30th 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.

b) 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.

c) Early adoption of standards

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Property, plant and equipment

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

6. Intangible assets

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

7. Financial instruments

Financial assets

Initial recognition and measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortised cost is calculated by considering 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 entity of financial assets is impaired. A financial asset of an entity 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 amortised 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 amortisation process.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Inventories

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

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

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

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

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

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

9. Provisions

Provisions are recognized when the fund 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 fund expects some or all 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 recognise 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. 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.

11. Employee benefits– Retirement benefit plans

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.

12. 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)

13. 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.

14. Related parties

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

15. 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 Equity Bank Kenya Ltd 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.

16. Comparative figures

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

17. Events after the reporting period

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

18. Ultimate and Holding Entity

The entity is a Kwale County Trade Revolving Fund established by Kwale trade revolving fund Act of 2014 under the department of trade. Its ultimate parent is the County Government of Kwale.

19. Currency

The financial statements are presented in Kenya Shillings (KShs)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

20. Significant judgments and sources of estimation uncertainty

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

State all judgements, estimates and assumptions made:

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

21. Financial risk management

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

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

a) Credit risk

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

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the 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 2019				
Receivables from exchange transactions	103,672,962			
Receivables from non-exchange transactions				
Bank balances	24,439,232			
Total	128,112,195			
At 30 June 2018				
Receivables from exchange transactions	106,416,856			
Receivables from non-exchange transactions				
Bank balances	7,617,402			
Total	114,034,258			

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 loan beneficiaries

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

b) Liquidity risk management

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Market risk

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

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

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

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

i. Foreign currency risk

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

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

		Other currencies	Total
	KShs	KShs	KShs
At 30 June 2019			
Financial assets (investments, cash ,debtors)			
Liabilities			
Trade and other payables			
Borrowings			
Net foreign currency asset/(liability)			

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
2019			
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 Ksh A rate increase/decrease of 5% would result in a decrease/increase in profit before tax.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Capital risk management

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

	FY2018/2019		FY2017/2018
	KShs		KShs
Revaluation reserve			
Revolving fund			
Accumulated surplus			
Total funds			
Total borrowings			
Less: cash and bank balances			
Net debt/(excess cash and cash equivalents)			
Gearing			

**Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019**

NOTES TO THE FINANCIAL STATEMENTS

1. Public contributions and donations

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Donation from development partners		
Contributions from the public		
Total		

2. Transfers from County Government

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Transfers from County Govt. – operations		
Payments by County on behalf of the entity		
Total		

3. Fines, penalties and other levies

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Late payment penalties		
Fines		
Total		

4. Interest income

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Interest income from loans(mortgage or car loans)	8,640,956	17,149,245
Total interest income	8,640,956	17,149,245

The interest income above is the amount of interest that has been earned from the loan beneficiaries during the financial year that ended on 30th June 2019. Note that the financial statements for the year 2017/2018 have been restated to adjust for interest Income earned which was previously recognised on cash basis instead of accrual basis of accounting as required under the international Public Sector accounting Standard (IPSAS).

5. Other income

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Insurance recoveries	-	-
Income from sale of tender documents	-	-
Miscellaneous income		
Total other income	-	-

6. Fund administration expenses

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Staff costs (Note 7)		
Loan processing costs		
Professional services costs		2,000,000
Total		2,000,000

7. Staff costs

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Salaries and wages		
Staff gratuity		
Staff training expenses		
Social security contribution		
Board allowances	97,200	142,740
Total	97,200	142,740

Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. General expenses

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Consumables	-	-
Electricity and water expenses	-	-
Fuel and oil costs	-	-
Insurance costs	-	-
Postage		
Printing and stationery	13,920	113,793
Rental costs		
Security costs		
Telecommunication		
Hospitality	-	440,346
Depreciation and amortization costs		
Other expenses	11,560	11,561
Total	25,481	565,700

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Finance costs

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Interest on Bank overdrafts		
Bank charges	18,010	3,465
Interest on loans from banks		
Total	18,010	3,465

10. Gain on disposal of assets

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Property, plant and equipment		
Intangible assets		
Total		

11. Cash and cash equivalents

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Fixed deposits account		
On – call deposits		
Current account	24,323,568	6,233,674
Others	109,984	1,383,728
Cash in hand	5,590	-
Total cash and cash equivalents	24,439,232	7,617,402

Total cash and cash equivalent figure has been restated as ksh 7,617,402 instead of the previous figure of ksh 6,316,743. This changes are as a result of loan recoveries that were paid directly to the bank. These receipts have since been recorded in the cash book thereby reflecting a higher cash book balance as shown above.

Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

		FY2018/2019	FY2017/2018
Financial institution	Account number	KShs	KShs
a) Fixed deposits account			
Kenya Commercial bank			
Equity Bank			
Sub- total			
b) On - call deposits			
Kenya Commercial bank			
Equity Bank			
Sub- total			
c) Current account			
Kenya Commercial bank			
Equity Bank	1580263360237	24,323,658	6,233,674
Sub- total			
d) Others(specify)			
Cash in transit			
Cash in hand		5,590	-
M Pesa	902736	109,984	1,383,728
Sub- total			
Grand total		24,439,232	7,617,402

12. Receivables from exchange transactions

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Current Receivables		
Interest receivable	3,016,622	15,166,337
Current loan repayments due	-	-
Other exchange debtors (Interest due b/f)	20,745,210	3,026,449
Less: impairment allowance		-
Total Current receivables	23,761,832	18,192,786
Non-Current receivables		
Long term loan repayments due		
Total Non-current receivables	79,911,130	88,224,070
Total receivables from exchange transactions	79,911,130	88,224,070
	103,672,962	106,416,856

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Prepayments

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Prepaid rent		
Prepaid insurance		
Prepaid electricity costs		
Total		

14. Inventories

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Consumable stores	-	-
Spare parts and meters		
Catering		
Total inventories at the lower of cost and net realizable value	-	-

Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Property, plant and equipment

	Land and Buildings	Motor vehicles	Furniture and fittings	Computers and office equipment	Total
Cost	KShs	KShs	KShs	KShs	KShs
At 1 st July 2016					
Additions					
Disposals					
Transfers/adjustments					
At 30 th June 2017					
At 1 st July 2017					
Additions					
Disposals					
Transfer/adjustments					
At 30 th June 2018					
Depreciation and impairment					
At 1 st July 2016					
Depreciation					
Impairment					
At 30 th June 2017					
At 1 st July 2017					
Depreciation					
Disposals					
Impairment					
Transfer/adjustment					
At 30 th June 2018					
Net book values					
At 30 th June 2017					
At 30 th June 2018					

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Intangible assets-software

Description	FY2018/2019	FY2017/2018
	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	FY2018/2019	FY2017/2018
	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				

Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Borrowings

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Balance at beginning of the period		
External borrowings during the year		
Domestic borrowings during the year		
Repayments of external borrowings during the period		
Repayments of domestics borrowings during the period		
Balance at end of the period		

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

	FY2018/2019	FY2017/2018
	KShs	KShs
External Borrowings		
Dollar denominated		
Sterling Pound denominated		
Euro denominated loan		
Domestic Borrowings		
Total balance at end of the year		

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

Description	FY2018/2019	FY2017/2018
	KShs	KShs
Short term borrowings (current portion)		
Long term borrowings		
Total		

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

	FY2018/2019	FY2017/2018
	KShs	KShs
Surplus for the year before tax	8,500,265	14,437,340
Adjusted for:		
Depreciation		
Gains/ losses on disposal of assets		
Interest income		
Finance cost		
Working Capital adjustments	8,500,265	14,437,340
Increase in inventory		-
Increase in receivables	(2,743,894)	(9,650,661)
Increase in payables		-
Net cash flow from operating activities	5,756,371	4,786,679

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:

- The County Government;
- The Parent County Government Ministry;
- Key management;
- Board of Trustees; etc

Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b) Related party transactions

	FY2018/2019		FY2017/2018
	KShs		KShs
Transfers from related parties'			
Transfers to related parties	-		950,000

c) Key management remuneration

	FY2018/2019		FY2017/2018
	KShs		KShs
Board of Trustees			
Key Management Compensation			
Total			

d) Due from related parties

	FY2018/2019		FY2017/2018
	KShs		KShs
Due from parent Ministry			
Due from County Government			
Total			

e) Due to related parties

	FY2018/2019		FY2017/2018
	KShs		KShs
Due to parent Ministry			
Due to County Government			
Due to Key management personnel			
Total			

23. Contingent assets and contingent liabilities

Contingent liabilities	FY2018/2019		FY2017/2018
	KShs		KShs
No court case against the Fund			
Bank guarantees			
Total			

***Kwale County Trade Revolving Fund
Reports and Financial Statements
For the year ended June 30, 2019***

12. 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:

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

