

*Am Speaker*

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COUNTY ASSEMBLY OF BUNGOMA  
(LPCS)  
25 NOV 2023  
TABLED  
By: Hon. John Nyanjira

**COUNTY ASSEMBLY OF BUNGOMA**  
**THIRD COUNTY ASSEMBLY**  
**SECOND SESSION**  
**PUBLIC ACCOUNTS AND INVESTMENTS COMMITTEE**

**REPORT  
ON**

COUNTY ASSEMBLY OF BUNGOMA  
(LPCS)  
29 NOV 2023  
NOTICE ISSUED  
By: Hon. John Nyanjira

**AUDITOR GENERAL'S REPORT ON THE FINANCIAL STATEMENTS OF  
THE BUNGOMA COUNTY TRADE DEVELOPMENT FUND FOR THE  
PERIOD ENDED 30<sup>TH</sup> JUNE, 2022.**

**Clerk's Chambers  
County Assembly Buildings  
PO BOX 1886,  
BUNGOMA, KENYA.**

**October, 2023**

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## CHAPTER ONE

### **Mandate of the committee**

#### **Hon. Speaker Sir,**

The Public Accounts and Investments Committee is a Select Committee established under Standing Order No. 209 of the Bungoma County Assembly standing orders. Standing Order 209 (5) provides that, the functions of the Public Accounts and Investments Committee shall be to-

- (a) Pursuant to the provisions of Article 185(3) of the Constitution, exercise oversight over the County Executive Committee and any other County Executive organ.
- (b) Pursuant to Article 229(7) and (8) of the Constitution, examine the reports of the Auditor-General on the Annual Accounts of the County Government.
- (c) Examine special reports, if any, of the Auditor-General on County Government Funds.
- (d) Examine the reports, if any, of the Auditor-General on County Public Investments.
- (e) Exercise oversight over County Public Accounts and Investments.

### **Legal background**

#### **Article 195 of the Constitution of Kenya, 2010 provides that-**

- (1) A County Assembly or any of its committees has power to summon any person to appear before it for the purposes of giving evidence or providing information.
- (2) For the purpose of clause (1), an Assembly has the same powers as the High Court to-
  - (a) Enforce the attendance of witnesses and examine them on oath, affirmation or otherwise.
  - (b) Compel the production of documents.
  - (c) Issue a commission or request to examine witnesses abroad.

In this regard, it must be emphasized that the oversight function of this House as carried out through Committees elevates it to a status akin to that of a High Court. The exercise of this unique quasi-judicial function is expected to strictly adhere to and apply the principles of natural justice and fair hearing, and that every process or action taken by the House or its Committees must be seen by all to be above board taking into account the fact that decisions of this House bear the element of finality.

**Section 19 of the County Assemblies Powers and Privileges Act,2017 on examination of witnesses states that;**

Where a County Assembly or a Committee requires that any information be verified or otherwise ascertained by the oral examination of a witness, the County Assembly or the committee may-

- (a) Cause such witness to be examined on Oath; and
- (b) Require the witness to produce any document; paper, book or record in the possession or under the control of the witness which may have a bearing on the subject of the inquiry.

**Guiding principles on the audit queries**

In the execution of its mandate aforesaid, the committee has been guided by core constitutional and statutory principles on Public Finance Management, as well as established customs, traditions, best practices and usages. These principles include:-

**Constitutional principles on public finance**

~~Article 201~~ of the Constitution of Kenya,2010 enacts fundamental principles that ***“...shall guide all aspects of public finance in the Republic...”*** These principles include;

- (a) there shall be openness and accountability, including public participation in financial matters;*
- (d) Public money shall be used in a prudent and responsible way; and*
- (e) financial management shall be responsible, and fiscal reporting shall be clear.*

**The provisions of section 117 (1) & (2) of the County Governments Act,2012 on standards and norms for public service delivery state that;**

1. A County Government and its agencies shall in delivering public services-

- (a) Give priority to the basic needs of the public;
- (b) Promote the development of the public service institutions and ensure that all members of the public have access to basic services.

2. Public services shall be equitably delivered in a manner that accords to:

- a) Prudent, economic, efficient, effective and sustainable use of available resources.
- b) Continued improvement of standards and quality.
- c) Appropriate incorporation of the use of information technology.
- d) Financial and environmental sustainability.

## **Audit of public accounts**

**According to Article 229(4)** of the Constitution of Kenya 2010, within six months after the end of each financial year, the Auditor General is required to examine, audit and Report in respect of that financial year, on:

- a) The Accounts of the National and County Governments.
- b) The accounts of all funds and authorities of the National and County Governments and express an opinion in the report; and ascertain whether money appropriated by Parliament or the relevant County Assembly and disbursed;
  - i. has been applied for the purpose for which it was appropriated or raised;
  - ii. was expended in conformity with the authority that governs it; and
  - iii. Was expended effectively, efficiently, economically and transparently as provided for under Section 149 of the Public Finance Management Act, 2012; and the said Audit reports shall then be submitted to Parliament or the relevant County Assembly.

Article 229(8) of the Constitution provides that, within three months after receiving an audit report, Parliament or the County Assembly shall debate and consider the report and take appropriate action.

Further and without prejudice to the foregoing, Section 34 of the Public Audit Act, 2015 provides that the Auditor-General may, upon request or at his or her own initiative, conduct periodic Audits which shall be pro-active, preventive and deterrent to fraud and corrupt practices, systemic and shall be determined with a view to evaluating the effectiveness of risk management, control and governance processes in state organs and public entities.

### **Direct personal liability**

**Article 226(5)** of the Constitution is emphatic that, *“If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not”*.

The Public Accounts and Investments Committee has hoisted high these Constitutional provisions as the basis for holding each individual, Public Officers directly and

personally liable for any loss of public funds under their watch. The Committee has and will continue to invoke these provisions in its recommendations to hold those responsible; personally accountable. This is also intended to serve as a deterrent measure.

### **Obligations of accounting officers**

**Section 149(1), of the PFM Act, 2012 stipulates that:** *“An accounting officer is accountable to the County Assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is lawful and authorized; effective, efficient, economical and transparent.”*

This provision also obligates accounting officers designated as such to various County Government entities to appear before the Public Accounts and Investments Committee of the County Assembly to respond to queries relating to their respective departments.

Section 156 of the PFM Act, 2012 provides that;

(1) If an accounting officer reasonably believes that a public officer employed by a county government entity has engaged in improper conduct in relation to the resources of the entity, the accounting officer shall:

(a) Take appropriate measures to discipline the public officer in accordance with regulations; or

(b) Refer the matter to be dealt with in terms of the statutory and other conditions of employment applicable to that public officer.

(2) If the County Executive Committee Member for Finance reasonably believes that an accounting officer has engaged in improper conduct within the meaning of the sub-section, the County Executive Committee Member for Finance shall:

(a) Take appropriate measures to address the matter in accordance with laid down procedures; or

(b) Refer the matter to be dealt with in terms of the statutory and other conditions of employment applicable to that public officer.

(3) The measures referred to in sub-section (2) (a) above include the County Executive Committee Member for Finance revoking the designation of accounting officer.

(4) For the purposes of this section, a public officer engages in improper conduct if the officer-

(a) Contravenes or fails to comply with this Act or any regulation in force;

(b) Undermines any financial management procedures or controls;

(c) Makes or permits an expenditure that is unlawful or has not been properly authorized by the entity concerned; or

(d) Fails without reasonable cause to pay eligible and approved bills promptly in circumstances where funds are provided for.

This section of the law further empowers the appointing authority to discipline errant accounting officers, which could include revoking their appointments. This provision has sealed a longstanding loophole that has previously seen accounting officers continuously commit or preside over fiscal indiscipline and malpractice in their departments with impunity without sanction.

The County Public Accounts and Investments Committee strongly holds the view that these provisions of the law were intended to be fully deployed to operationalize the principles set out under Article 201 of the Constitution stated hereinabove and to ensure prudent and responsible management of public resources. The Committee has accordingly invoked these provisions in recommending varying disciplinary actions against persons or public officers who bear responsibility for breach of the law and/or are responsible for the loss or wastage of public resources.

The County Public Accounts and Investments Committee places a premium on these principles, among others, and has been guided by them in the entire process that has culminated into the production of this report.

The Committee further derives its powers from the Public Procurement and Assets Disposal Act 2015, the Public Procurement and Assets Disposal Regulations 2006, the Public Finance Management Act 2012, the Public Finance Management (County Governments) Regulations 2015, the County Governments Act, 2012 and the Constitution of Kenya 2010.

#### **Confidentiality undertaking by the committee**

To enhance the integrity of the committee and its work, members of the Public Accounts and Investments Committee have signed a confidentiality undertaking in accordance with Bungoma County Assembly Standing Order No 98. In relation to the provisions of the said standing order, members have undertaken that in relation to the Audit report on Bungoma County Trade Development Loans Fund for the FY 2021/2022, no member of the Committee shall refer to the substance of the proceedings touching on the subject matter which shall include any evidence or documents presented to the committee and

any information under discussion or deliberation at its meetings before it is tabled in the County Assembly.

**Procedure adopted by the committee**

The Committee started by familiarizing itself with the contents of the report of the auditor general on the financial statements of the Bungoma County Trade Developments Fund for the period ended 30<sup>th</sup> June 2022.

The Committee then invited the department to shade more light on queries raised by the auditor.

The County Executive Committee Member, County department of Trade, Energy and Industrialization and the team were subjected to thorough interrogation by the Committee on several issues touching on the Fund and the Committee also critically analyzed the duo's oral submissions.

Hon. Speaker Sir, This report contains the written and oral submissions by the department when they appeared before the Committee and observations and recommendations of the Committee that were arrived at by consensus.

**Acknowledgment**

Honorable Speaker sir, the Committee wishes to express its gratitude to the Offices of the Speaker and the Clerk of the County Assembly for the support rendered to it in the quest of discharging its mandate and compiling of this report.

The Committee further wishes to thank the fund administrator and the chief officer for dutifully appearing before it and also for their cooperation.

Allow me, Honourable Speaker, to applaud each single Honorable Member and the secretariat of this key Committee for their dedication and exemplary work which made the interrogation of the said financial statements and production of this report a success.

I congratulate you all.



**Committee membership**

The Public Accounts and Investments Committee as currently constituted comprises of the following members:

- 1. Hon. Everton Nganga      Chairperson
- 2. Hon. Timothy Chikati      Vice-chairperson
- 3. Hon. Anthony Lusenaka      Member
- 4. Hon. Stephen Kaiser      Member
- 5. Hon. Benard Kikechi      Member
- 6. Hon. John K. Wanyama      Member
- 7. Hon. Everlyne Mutiambu      Member
- 8. Hon. Alfred Mukhanya      Member
- 9. Hon. Violet Makhanu      Member
- 10. Hon. Jerusa Aleu      Member
- 11. Hon. Metrine Nangalama      Member

On behalf of the Public Accounts and Investments Committee, I now wish to table this report and urge this Honourable House to adopt with the recommendations therein.

Signed  .....

**Hon. Everton Nganga, Mca-East Sang'alo ward,  
Chairperson, public accounts and investments committee**

## CHAPTER TWO

### **The report of the auditor-general on the financial statements of the Bungoma county trade development loans fund for the financial year ended 30th June 2022.**

#### **Introduction**

Hon.Speaker Sir,

This report was issued in accordance with the provisions of Article 229 of the Constitution of Kenya, 2010 and Section 35 of the Public Audit Act, No.34 of 2015.

#### **Qualified opinion**

##### **1. Undisclosed material uncertainty relating to sustainability of services**

The statement of financial position reflects a balance of kshs 115,679,790 in respect to current portion of long term receivables from exchange transactions arising from loan disbursements to beneficiaries since 2014 when the fund was established. However review of the schedules supporting the amount revealed that the last time loans were issued was in 2019. At that time, there were outstanding loans amounting to kshs 104,189,595 which were expected to have been repaid by the end of 2020. This indicates that the fund is not in a position to disburse new loans and that there are challenges in effecting recoveries. This has not been disclosed in the financial statements. In the circumstances, continued sustainability of the fund is doubtful.

#### **Management Response**

We do acknowledge the concerns raised concerning the going concern of the fund. We are however trying our level best to ensure the funds regulation gazette is finalised within this financial year. We have already held the stakeholders meeting to enhance the loan recoveries through the established government structures. We are also finalising the data validation exercise to ensure we have verifiable data on the loans issued in terms of the actual loan status i.e deceased cases, cleared loans, bad & doubtful loans, Active or running loans. We have also held the round table stakeholders meeting to review the strategy on enforcement of loan repayments as well as a sensitization program in all the wards to ensure we improve on the loan recovery. These efforts have been boosted by the political good will by H.E the governor and other elected representatives on sensitization of the public on the importance of loan repayment to ensure the revolving fund is self-sustaining.

### **Oral Submissions**

In their oral submissions, the management undertook to avail the following documents for committee verification-

- (a) Documents relating to the current bank balance including ledgers and schedules to show evidence of substantial recoveries.
- (b) Evidence to show that the loans disbursed were secured.
- (c) Evidence to demonstrate the strategies so far put in place by the management to boost loan repayment

### **Committee's Observations**

1.The Committee observes that Management had failed to recover outstanding loans dating back from 2014 since they became due for recovery amounting to Kshs. 104, 189,595 as reported in the report of the Auditor General.

2.It was also observed that failure to recover the loans that are outstanding since they became due for recovery as indicated in the audit report and as agreed to by management, implied that the amount of funds available for further loaning to qualified borrowers during the said period were adversely affected.

### **Committee's Recommendations**

That for the purposes of the fund sustaining service delivery for trade development loans, through disbursement of low interest loans to qualified borrowers which is its core business, the Management through the Accounting Officer should as a matter of urgency scale up recovery efforts of all loan repayments that are due as indicated in the audit report; and a corresponding compliance report be submitted to the County Assembly within 60 days from the date of adoption of this report.

1. The CECM to evaluate and assess the long-term receivables with a view of ascertaining bad and doubtful debts in order to make a provision for the same in the financial statements; to mitigate the effects of uncertainty in recovering the amounts.
2. Data validation exercise per ward for the verification of the loans must be concluded in 60 days after adoption of this report and a report submitted to the County Assembly on the same.

3. The CEC Member should fast track the review of regulations to consider provision of securities for loans advanced and insurance of the loan facilities. Loan repayments enforcement to be enhanced.

## **2. Cash and cash equivalents**

The statement of financial position reflects a balance of kshs 3,425,622 in respect of cash and cash equivalents which as disclosed in note 4 to the financial statements, includes a balance of kshs 340,717 held in an mpesa account. However, mpesa statements as at 30th June 2022 were not provided to support the balance. Further, as disclosed in Note 4 the operations account reflects a balance of kshs 3,081,182 which however is at variance with the reconciled balance of kshs 4,203, shown in the bank reconciliation statement for the month of June 2022. The variance of kshs 3,076,979 has not been explained or reconciled. In the circumstances, the accuracy and completeness of the cash and cash equivalents balance kshs 3,425,622 as at 30th June, 2022 could not be confirmed

### **Management response**

The said amount remained outstanding during the transfer of funds from Mpesa collection Account from the utility to working account which is a mirror/settlement account for the collection account. We evidenced and availed the email correspondence to safaricom requesting for the statement for the same during audit since we were informed we couldn't access the Mpesa statement for the fund beyond 6 months. We are however yet to receive the working account. The variance of Ksh 480 as per the cash book and the bank statement reconciliation is due to the bank charges for the operation account as per the attached bank statement.

### **Oral submissions**

In their oral submissions, the management undertook to avail evidence in relation to the un-reconciled statements including M-pesa statements in regard to the highlighted figure of Ksh.340, 717 held in an M-pesa account for committee verification

### **Committee Observations**

1. The Mpesa statements were provided to the committee for verification even though the amount of Kshs. 340,717 could not be traced in the statements.

2. The variance of Kshs. 3,076,979 in the bank reconciliation statement was not explained or reconciled by the accounting officer. The accuracy of the cash and cash equivalents cannot be confirmed.

### **Committee Recommendations**

With lack of sufficient reconciliation documentation for the cash and cash equivalents totalling to Kshs. 3,076,979, the Committee finds the Administrator of the Fund liable for mis-appropriation of the said funds and should be surcharged as per the laid down procedures in line with Section 156 (2) of the Public Finance management Act which provides; ***If the County Executive Committee Member for finance reasonably believes that an accounting officer has engaged in improper conduct within the meaning of subsection (4), the County Executive Committee member for finance shall—***

***(a) Take appropriate measures to address the matter in accordance with laid down procedures; or***

***(b) Refer the matter to be dealt with in terms of the statutory and other conditions of employment applicable to that public officer.***

Article 226 (5) of the Constitution provides that, ***If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not.*** The Administrator of the fund is thus found culpable for the unaccounted for sum of Kshs. 3,076,979 which should be recovered in full.

### **3. Current Portion of Long-Term Receivables from Exchange Transactions** **3.1 Unsupported receivables balance**

The statement of financial position reflects a balance of kshs115,679,790 in respect of current portion of long term receivables from exchange transactions which as disclosed in note 5 to the financial statements, comprises of kshs 13,877,454 and kshs 101,802,336 relating to interest receivable and current loan repayments due respectively .However, loan repayments schedules were not provided to support the balance.

In addition and as reported in the previous year's report, analysis of the list of defaulters revealed that one hundred and eighty eight (188) defaulters are staff of the county executive of Bungoma who collectively were in arrears amounting to kshs 4,728,004 .No

explanation was provided for failure to recover these loans from the staff of the county executive.

In the circumstance the fair valuation and recoverability of the current portion of long term receivables balance of kshs 115,679,790 could not be confirmed

### **3.2 Loan Recoveries**

In addition, the statement reflects a balance of Kshs. 115,679,790 in respect of current portion of long term receivables from exchange transactions and a comparative balance of 115,775,298. The difference of Kshs. 95,508 represents loan recoveries during the year under review. However, the statement of cash flows reflects loan recoveries of Kshs. 202,864. The variance of Kshs. 107,356 have not been explained or reconciled.

In the circumstances, the accuracy of the loan recovery amount during the year under review could not be confirmed.

#### **Management response**

We acknowledge the variance as stated. The computed figures are based on the total loan disbursements, subsequent loan revolving and the loans repaid. The variances are due to the fact that the delinquency report obtained from the system and actual loan balances computed differ. The difference is basically due to the loan balances as per the manual recording of loan balances and the data captured in the system. We are however carrying out an intensive data validation exercise in all the wards to ensure all the loan beneficiaries' details are captured correctly and all the loan balances reconciled. Some of the reasons were duplicate loan accounts, erroneous ID no which are the unique identifiers.

#### **Incorrect loan balances recorded**

We had started validation exercise with the village administrators; however, this process was stopped due to 3 main issues;

- (i) Lack of finances to enable the ward administrators to carry out the exercise.
- (ii) Non-payment of software assurance to the system vendor making us not able to access the system.

- (iii) The political issues as it was termed as an exercise meant to harass and punish loan defaulters as opposed to obtaining data.

### **Oral Submissions**

The management submitted that it would provide documents to show check-off deductions on the payroll including repayment schedules and evidence of recovery from the defaulters as civil debts. The management also undertook to submit evidence in regard to the action taken against the 188 defaulters who are staff of the County Executive of Bungoma who collectively were in arrears of ksh.4, 728,004.

### **Committee Observations**

1. The department availed a sample of loan repayment arrears list which showed that most of the businesses have since been closed, with others not traceable after relocation to other areas. The recoverability of the loans is in doubt since the rate of repayment is at a very slow rate with most of the loans almost doubtful.
2. The fund administrator has not reconciled the material differences between the manual and the system loan balances to a tune of Kshs. 107,356.
3. It was observed that management did not table evidence for committee verification on failure to institute recovery measures against 188 County Executive staff who benefited from the loans through check-off system

### **Committee Recommendations**

1. Regulation 21 of the Bungoma County Trade Development Loans Fund Regulations, 2014(revised) 2019 stipulates that-

If in the opinion of the unit there has been or is likely to be any breach of or failure to comply with any condition or term of repayment in respect of a loan, the unit may forthwith;-

- a) Recover the loan from the beneficiary as a civil debt under the Debts (summary recovery) Act, Chapter 42 of the Laws of Kenya, the amount of the loan or the amount then remaining unpaid together with interest thereon.

b) Enforce or realize any security relating thereto.

The committee therefore recommends that the department carries out a thorough data validation exercise so as to know the possible recoverable amount and institute recovery through civil debts. Employees of the County Government who were beneficiaries to the trade loans to be recovered immediately form the payroll. A corresponding compliance report to be submitted to the County Assembly within 60 days from the date of adoption of this report.

2. The CECM to evaluate and assess the long-term receivables with a view of ascertaining bad and doubtful debts in order to make a provision for the same in the financial statements; to mitigate the effects of uncertainty in recovering the amounts.
3. The CEC Member should fast track the review of regulations to consider provision of securities for loans advanced and insurance of the loan facilities. Loan repayments enforcement to be enhanced.

#### **4. Statement of comparison of budget and actual amounts.**

The statement of comparison of budget and actual amounts reflects under transfers from county government, final budget and actual on comparable basis amounts of kshs 1,200,000 and nil difference instead of kshs 1,200,000 .Similarly, the statement reflects under total income ,final budget and actual on comparable basis amounts of kshs 1,317,500 and kshs 10,143 respectively, with a difference of kshs 107, 357 instead of kshs 1,307,357.In the circumstances ,the accuracy and completeness of the statement of comparison of budget and actual amounts could not be confirmed.

#### **Management response**

The fund activities are mainly carried out as budgeted in the main budget of the department after presentation of our estimates during the budget making process. This is due to the fact that the fund has not yet attained self-sustainability. Most of the expenses such as staff cost, office Rent, Stationery, Fuel for field activities, insurance & maintenance for motor vehicle, capacity building of both the staff & entrepreneurs, review of regulations, and annual software assurance are still being budgeted in the main ministry since the 3% administrative fee is not sufficient to facilitate for all these



expenses.

The budget estimate is as attached in the financial statements which were considered during the budget making process of the department.

### **Oral Submissions**

The committee sought to know from the management how it incurred expenditure during the F/Ys 2020/21 & 2021/22 without an approved budget.

In their oral submissions, the management stated that at that time, the fund didn't have a committee in place since its term had expired. The fund administrator further submitted that, indeed the budget is always prepared subject to approval by the committee which was non-existent.

They further stated that the financial statements under budget comparative figures were correct since the fund didn't receive any exchequer during the financial year.

### **Committee Observations**

1. The committee observed that the department operated without a an approved budget
2. The comparative figures on budget and actual amounts were verified and confirmed as submitted by the fund administrator.

### **Committee Recommendations**

The fund administrator should always ensure that there are budget estimates approved by the management of the fund for the year as a remedy for non-compliance to budgets in relation to the PFM Act 2023 Section 149 (g), and (h).

## **5.0 Assets**

### **5.1 Property, Plant and Equipment**

The statement of financial position reflects a nil balance in respect of property, plant and equipment which as disclosed in note 6A to the financial statements relates to ICT equipment and which have been fully depreciated. However, no explanation was

provided on why the assets have not been revalued to give them new values since they are still being used by the fund. In addition, ownership documents for the assets were not provided for audit review.

Further although the management explained that assets were acquired by the county executive of Bungoma through the department of trade in 2018/2019 and have remained with the department to date, it was not explained why the assets are being reflected in the financial statements of the

fund instead of financial statements of the county executive.

In addition, the balance was not supported by a fixed assets register showing details relating to the nature or type of asset, date of acquisition, cost, supplier, unique identification number, current value, current location, user, accumulated depreciation and net book values.

In the circumstances the accuracy, ownership, fair valuation and completeness of the nil balance on property, plant and equipment could not be confirmed

### **Management Response**

The assets listed were not acquired by the county trade loan fund as mentioned neither are they managed by the fund. The asset is yet to be handed over to the fund. The only reason why they are listed as assets of the fund is because they are mostly used by the fund. We have however requested the ministry to transfer the ownership of the assets to the fund as recommended and put up an asset register as well.

### **Committee Observations**

1. No ownership documents for the ICT equipment were provided to the committee for verification
2. The ICT equipment was acquired by the County Ministry of Trade, energy and industrialization and has not been transferred to the fund.

### **Committee Recommendations**

The ICT equipment should be reflected in the county executive financial statements and not the funds unless when the same will be officially transferred with ownership

documents, therefore the financial statement of the fund should be adjusted to reflect the same and be submitted to the Office of auditor general for confirmation and signing.

## **5.2 Intangible assets**

The statement of financial position, and as disclosed in note 6B to the financial statements, reflects an intangible assets balance of kshs 8,484,228. However, although management has indicated that the assets were acquired in 2018/2019 by the county executive through the department of trade, it was not explained why the assets are reflected in the financial statements of the fund instead of financial statements of the county executive.

Further the statement indicates that intangible assets are under Note 6B while in the notes to the financial statements intangible assets are shown under Note 6A. In the circumstances the accuracy and ownership status of the intangible assets valued at kshs 8,484,228 could not be confirmed.

### **Management response**

These intangible assets were acquired by the department and issued to the fund for use. They still remain as the assets of the ministry until when the fund will be able to maintain them because they have an annual software assurance which currently the fund cannot finance.

We are also in the process of data validation to ensure the loan management system is fully deployed to all wards since it is web based, we however captured the existence of the intangible assets as a fund asset since it is majorly used by the fund.

We will however request the ministry to officially hand them over to the fund as advised.

### **Committee Observations**

1. No ownership documents for the intangible asset were provided to the committee for verification.
2. The Intangible Assets were acquired by the County Ministry of Trade, energy and industrialization and have not been transferred to the fund even though it is fully used by the fund.

## **Committee Recommendations**

The intangible Assets should be reflected in the County Executive financial statements and not the funds unless when the same will be officially transferred with ownership documents to the fund.

### **6.0 Unsupported balances –statements of financial performance**

#### **6.1 Interest income**

The statement of financial performance reflects an amount of kshs 117,500 in respect of interest income which as disclosed in note 1 to the financial statements relates to interest income from loans. However, supporting schedules were not provided for audit review, In the circumstances the accuracy and completeness of the amount of Kshs 117,500 in respect of interest income could not be confirmed

#### **Management Response**

The county trade loan fund has a loan repayment period of 24 months upon which all the loans issued fall due. The interest recorded reflects the interest of loans charged for loans issued in 2019 July which all fell due in June 2021. The current receivables include the current loan repayments due and interest receivable. This is as shown in the ledgers on loan receivable and in the financial statement receivables from exchange transactions.

This is 5% of the Ksh.2, 350,000 which was issued in 2019 and was due to be received as at August 2022.

$$2,350,000 * 5 / 100 = 117,500$$

#### **Committee Observations**

The submissions on the explanation of interest income are sufficient to resolve the issue.

#### **Committee Recommendations**

The accounting officer should always provide footnotes to the Notes in the financial statements to clarify unclear disclosures.

## 6.2 Board and committee expenses.

The statement of financial performance reflects an amount of Kshs 718,900 in respect of general expenses which as disclosed in Note 2 to the financial statements includes an amount of Kshs 678,300 relating to board and committee expenses. However, the board minutes, attendance registers and detailed schedules were not provided to support the amount. Further the statement indicates that Note 2 is on general expenses while in the notes to the financial statements; note 2 is on use of goods and services.

In the circumstances the accuracy of the amount of Ksh.678,300 on Board and Committee expenses could not be confirmed

### Management Response

We have revised the financial statements as recommended as per the PSASB template and corrected all the errors as observed to capture the true position. We had erroneously captured the staff training and field subsistence allowance under the boards and committees the revised finals are as captured below;

<b>Use of Goods and Services</b>		
<b>Description</b>	<b>2021/2022</b>	<b>2020/2021</b>
	Kshs.	Kshs.
Telecommunication	40,000	121,000
Training	180,800	-
Travel, subsistence and other Allowances	497,500	831,400
Other Expenses	600	3,790
<b>TOTAL</b>	<b>718,900</b>	<b>956,190</b>

### Committee Observations

There was no availed supporting documentation for the expenditure of Kshs. 678,300. This raises questions on the propriety of the expenditure.

### Committee Recommendations

The fund administrator should pass journal entries to rectify mis-posting of the domestic and training communications expenses that were inadvertently posted in the board and

conference journals in the financial statements for the year ended 30<sup>th</sup> June 2023. This should be compiled within 2 weeks from the date of adoption of this report.

### **Other matters**

#### **A) Budgetary control and performance**

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on a comparable basis of kshs 1,317,500 and kshs 10,143 respectively, resulting in underfunding of kshs 1,307,357 or 99% of the budget. Similarly, the statement reflects actual expenditure of kshs 718,900 against approved budget of kshs 1,317,500 resulting in under performance of budget by kshs 598,600 or 45% of the budget. The underfunding and underperformance of the budget affected the planned activities and may have impacted negatively on service delivery to the public.

### **Committee Observations**

The underfunding of the budgets at 99% was occasioned by the zero transfer of the exchequer from the County Government to the Fund. This was however not explained in the footnotes as required in the reporting templates. Similarly, no explanation was given for the underperformance of the budget at 45%.

### **Committee Recommendations**

The accounting officer should always ensure that approved budgets are appropriated by the Assembly and implemented as required.

#### **B) Unresolved Prior year matters**

In the audit report of the previous year, a number of issues were raised under report on the financial statements and report on lawfulness and effectiveness in use of public resources. However, management has not resolved the issues nor disclosed all the prior year matters as provided by the Public Sector Accounting standards Board template. The issues reported in the progress on follow up of prior year auditors recommendations do not relate to 2020/2021, but relate to 2019/2020 financial year.

### **Committee observation**

The Committee observes that the department did not provide a status report of the implementation of prior year matters for the year ended June 2021 as reported by the Auditor General. This amounts to negligence by the Accounting Officer.

### **Committee recommendations**

The Committee notes that Section 53 of the Audit Act obligates the relevant Accounting Officer of a state organ or public entity to within three months after Parliament has considered and made recommendations on the audit report, to—

(a) Take the relevant steps to implement the recommendations of parliament on the report of the Auditor-General; or

(b) Give explanations in writing to the Parliament on why the report has not been acted upon.

(2) Failure to comply with the provisions of subsection (1), the Accounting Officer shall be in contempt of Parliament or County Assembly and upon determination by Parliament or relevant County Assembly, Parliament or relevant County Assembly may recommend administrative sanctions such as removal as the Accounting Officer, reduction in rank among others.

The Committee thus directs the Fund Administrator to provide to the County Assembly a report on the implementation of the prior year audit matters to date, within a period of one 30 days from the date of adoption of this report.

### **C) Non-compliance with the Public Sector Accounting Standards Board Template**

The financial statements submitted for audit did not reflect the following information contrary to the requirements of the Public Sector Accounting standards Board reporting template;

- The financial statements reflect incorrect numbering of the key fund information and management.
- Photographs of committee and management members are not shown;the report by the fund administrator is not signed.





### **Committee recommendations**

1. Article 199 (1) of the constitution mandates all county legislation to only take effect once gazetted in the Kenya gazette. The Public accounts committee urges the sectoral committees of the Assembly to be vigilant in their oversight roles in ensuring implementation of programs within ministries operate within requisite legal provisions.
2. Halt operations of the trade loan fund until the reviewed regulations are published.

#### **E) Lack of budget for the fund**

Management did not provide a budget for the fund to support the balances in the statement of comparison of budget and actual amounts. Consequently, the source of the balances reflected in the statement of comparison of budget and actual amounts could not be confirmed. This is contrary to section 149(2)(h) of the PFM Act 2012, which states that in carrying out a responsibility imposed by subsection (1) an accounting officer shall, in respect of the entity concerned, prepare estimates of expenditure of the entity in conformity with the strategic plan. In the circumstances management was in breach of law.

#### **Committee Observations**




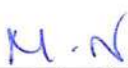

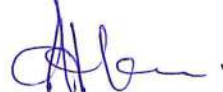
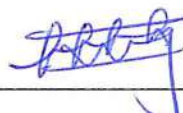


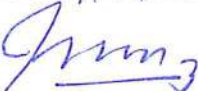
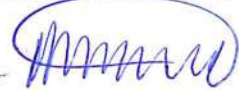
1. The Fund didn't have approved budget estimates to guide its operations during the year, nor did the fund have an active fund management committee that is supposed to approve these estimates. The Public Accounts committee notes governance gaps in the management of the fund during the year under review.

#### **Committee Recommendation**

The Funds Administrator should always ensure that there are program budget estimates for the fund to be approved by the County Assembly. The Accounting officer, pursuant to the provisions section 149(2) (h) of Public Finance Management Act, 2012 should always prepare budgets as guided by the National treasury and County Treasury.

### ADOPTION SCHEDULE

We the undersigned members of the Public Accounts and Investment Committee affix our signatures adopting this report with the contents therein.

	MEMBERS NAME	DESIGNATION	SIGN
1	Hon. Everton Nganga	Chairperson	
2	Hon. Timothy Chikati	Vice Chairperson	
3	Hon. Everlyne Mutiembu	Member	
4	Hon. Metrine Nangalama	Member	
5	Hon. Stephene Kaiser	Member	
6	Hon. Jerusa Aleu	Member	
7	Hon. Anthony Lusenaka	Member	
8	Hon. Violet Makhanu	Member	
9	Hon. Bernard Kikechi	Member	
10	Hon. Alfred Mukhanya	Member	
11	Hon. John k. Wanyama	Member	

REPUBLIC OF KENYA

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



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

04 APR 2023

RECEIVED  
P.O. Box 437-50200 BUNGOMA

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

OAG/WRO/BGM.CE.TDLF/2021/2022/ (28)

21 March, 2023

CPA Chrispinus Barasa  
C. E. C. M - Finance and Economic Planning  
P. O. Box 1886 -50200  
**BUNGOMA**

Dear CPA Barasa,

**REPORT OF THE AUDITOR-GENERAL ON BUNGOMA COUNTY TRADE  
DEVELOPMENT LOANS FUND FOR THE YEAR ENDED 30 JUNE, 2022**

I transmit the report on the examination and audit of Bungoma County Trade Development Loans Fund for the year ended 30 June, 2022 in accordance with the provisions of Article 229(7) of the Constitution of Kenya for your necessary action as required by Article 229(8) of the Constitution.

Yours sincerely

  
Sylvester N. Kiini  
For: **AUDITOR-GENERAL**

Copy to: **The Principal Secretary**  
National Treasury  
P.O. Box 30007 - 00100  
**NAIROBI.**

**Mr. Jeremiah Nyegenye, CBS**  
Clerk to the Senate  
P. O. Box 41842 - 00100  
**NAIROBI.**

**H.E. Hon. Kenneth Lusaka, EGH**  
The Governor - Bungoma County  
P.O. Box 1886-50200  
**BUNGOMA**

**Mr. Charles W. Wafula**  
Clerk to the County Assembly of Bungoma  
P. O. Box 437-50200  
**BUNGOMA.**

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*Enhancing Accountability*

**REPORT**

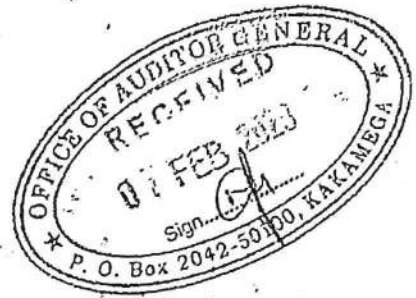
**OF**

**THE AUDITOR-GENERAL**

**ON**

**BUNGOMA COUNTY TRADE  
DEVELOPMENT LOANS FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2022**



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**BUNGOMA COUNTY TRADE DEVELOPMENT LOAN FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED**  
**JUNE 30, 2022**

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

**Bungoma County Trade Development Loan Fund  
Annual Report and Financial Statements for the year ended June 30, 2022**

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**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**1. Key Bungoma county trade loan fund Information and Management**

**a) Background information**

Bungoma county trade development Fund is established by and derives its authority and accountability from the County Trade development Fund Regulation 2014. The Fund is wholly owned by the County Government of Bungoma and is domiciled in Kenya.

The fund's objective is to provide capacity building through training of the traders as well as offer affordable credit facility to the MSMEs

**b) Principal Activities**

The Fund's principal activity is to offer affordable credit facilities to the Micro Small Medium Enterprise who were largely unable to access affordable credit facilities from the local and foreign mainstream banks as well as capacity build traders through offering the relevant short term trainings

**a) Fund Administration Committee**

Ref	Position	Name
1	Chairman of the Board	Stephen Makhanu
2	Committee Members	Jacklyne Makokha
3	Committee Members	Chrispin Chepchin
4	Committee Members	Maurice Saenyi
5	Committee Members	Calistus Wanjala
6	Committee Members	Mary Florence Wafula
7	Rep Chief Officer finance	Joseph Musungu
8	Fund Administrator	Sitati Stephen
9	County Attorney	Cyril Weyongo

**Bungoma County Trade Development Loan Fund  
Annual Report and Financial Statements for the year ended June 30, 2022**

**b). Key Management**

Ref	Name	Position
1	STEPHEN MAKHANU WAMALWA	CHAIRMAN
2	SITATI STEPHEN	FUND ADMINISTRATOR
3	CYRIL WEYONGO	COUNTY ATTORNEY
4	ROSE PEPELA	LOANS OFFICER
5	MICHAEL MASINDE	CREDIT ASSISTANT

**c) Fiduciary Oversight Arrangements**

Ref	Position	Name
1	Directorate Internal Audit	Makokha Brian
2	Controller of Budget	Dennis Nyamweya
3	County Assembly committee	
4	Auditor General	

**d) Registered Offices**

P.O. Box 437-50200

Building/House/Plaza

Bungoma, KENYA

**e) Fund Contacts**

Telephone: (254) 055-30343

E-mail: info@bungoma.go.ke

Website: www.bungoma.go.ke

**f) Fund Bankers**

Equity Bank

P.O. Box 2450 – 50200

Bungoma, Kenya

**i) Independent Auditors**

Auditor General

Office of The Auditor General

Anniversary Towers, University Way

P.O. Box 30084

G. P. O 00100



**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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Nairobi, Kenya

**j) Principal Legal Adviser**

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

**Bungoma County Trade Development Loan Fund  
Annual Report and Financial Statements for the year ended June 30, 2022**

**2. The Board of Trustees**

Name	Details of qualifications and experience
1. Stephen Makhanu Wamalwa	Current Chief officer Dept. of Trade with 10years' experience in public service .Bachelor of arts Executive Director and Chairperson of the committee
2. Maurice Saenyi	Retired Banker at KCB Bank with a BCOM Finance option
3. Jacqueline Makokha	CPA K Currently an Accountant Dept of Finance county government of Bungoma
4. Joseph Musungu	BCOM Finance option CPA K Accountant Dept of Finance representative for the Chief officer Finance
5. Calistus Wanjala	BCOM Finance Accountant with the Women Enterprise Fund Bungoma
6. Mary Florence Wafula	Retired Teacher and Headmistress
7. County Attorney	County Attorney and Legal advisor to the county government
8. Sitati Stephen	BCOM Finance Fund Administrator and secretary to the committee with 10-years' Experience in Sacco movement and microfinance.
9. Chrispin Chepchin	Bachelors of Arts Currently a Teacher at Mt Elgon

**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**3. Management Team**

Chairperson	Denson Barasa
Secretary(Fund Administrator)	Sitati Stephen
County Attorney	Cyril Weyongo
Rep Chief Finance	Dinah Makokha
Secretary(Ward Administrator) WARD LEVEL	45 WARD ADMINISTRATORS

The key function of the management team is to oversee the day to day activities of the fund as well as:

- conduct civic education to promote the awareness and understanding of the operations of the Fund amongst stakeholders;
- provide capacity building to beneficiaries to ensure the effective use the funds borrowed under these Regulations
- develop framework that will ensure an open, transparent and efficient use of funds borrowed under these Regulations;
- conduct research and gap analysis to ensure continuous performance improvement of the Fund;
- assist micro, small and medium enterprises , where the unit considers it necessary, to design, identify, select, prioritise, appraise, evaluate and negotiate investment opportunities what will result in maximum benefits;
- maintain a record of all Fund documentation;
- assist the Member of the Executive Committee in formulating guidelines and standard documentation required under these Regulations
- Carry out such other functions as may be conferred on it

**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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**4. Board/Fund Chairperson's Report**

The County trade development loan fund was established by Bungoma County Government upon realization that a majority of the County entrepreneurs could not access affordable credit facility from our local and foreign mainstream banks due to high interest rates, knowledge on loan processes, lack of collateral issues and the bureaucracies involved

The fund is managed by the 3 key units thus the County Board, Ward Committees, and Secretariat. We have however requested for the review on this structure to ensure efficiency in the loan management. This is due to the fact that although the fund is domiciled in trade it is being administered by the ward administrators in the department of public administration who are not directly under the department of trade and neither have the required skills to keep proper books of account at the ward level.

**Administration of the fund**

The fund is administered both at the county and ward levels. The key mandate of administering the fund is vested on the Fund Administrator who manages the day to day activity of the fund and reports quarterly to the board. The main task of the administrator is to ensure the fund is managed in prudent way and that the main objective of establishing the fund is achieved. He is also tasked to ensure he submits timely reports as required from time to time.

At the ward level the ward administrators are the secretaries to the ward committees tasked with the administration of the fund. Their main function is to issuance of loan forms, vetting of the loan beneficiaries as well as safeguarding the loan documents and keeping up to date records of the loan beneficiaries.

**Training & Capacity Building**

Capacity building is one of the key objective of the fund. We have therefore engaged the services of the Trainers from the Kenya Institute of Business Training (KIBT, Equity Bank and the other stakeholders in offering elaborate trainings to the traders in the county. We have so far trained more than 8000 beneficiaries from the entire county and intend to do more trainings in the next financial year to capacity build both the traders and loan beneficiaries. During the financial year we were however unable to carry out trainings due to budgetary constraints.

**Loan Default**

The fund has had high default specifically this year this is mainly due to the political situation in the country which made it hard for us to enforce loan recovery coupled with the harsh economic period. This was also contributed by the closure of several businesses due to covid pandemic as well as closure of the largest sugar mill within the county. We are however working hard to recover these loans through constant follow up of defaulters. We however feel that this is not the only solution to this problem and therefore recommend that a more stakeholders engagement is done to chat the future of the fund such as instituting legal action to be taken on the loan defaulters for loan recovery

**Human Resource**

The fund has a lean team of 4 staff at the county level, Ward Administrators and credit officers at the ward level however these said officers are from the department of Public administration and Finance respectively with other responsibilities. This has rendered the management of the fund at

**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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**Automation of the loan management**

The fund has made good progress in addressing the challenges in loan management through procuring a Traders and Loan Management System. This was informed by an urgent need to generate reports as well as ensure we have secured all our records.

We therefore identified a system consultant to help us develop loan management module tailored to fit our needs; we then embarked on the collection of the data from all wards to enable us update our data before validation and migration of the same to the system. This process has however taken long given the magnitude and sensitivity of work involved coupled with the lean team at the secretariat.

The automation exercise has since been completed with all the modules in place from Traders management, Loan Management where we have loan application, appraisal, approval, disbursement, repayment and generation of financial and delinquency reports. We have also already integrated the system with the Bank and Mpesa platform to help clients repay their loans conveniently and also help us safe guard our data in order to generate timely reports.

The system has however not yet been rolled out to all the wards as earlier intended although the personnel were trained due to lack of the infrastructural support at the various ward offices.

During this financial year we started the exercise of data validation to ensure the integrity of the data we have however not been able to fully complete the exercise in all the 45 wards due to constraint in finances, lean staff and the political environment as we couldn't follow up on the loan beneficiaries but we do hope at the end of the exercise to have well reconciled figure as that support the loan portfolio for the fund

**Loan Default:** The fund has had high default specifically for loans issued in 2014. This was contributed by the poor loan vetting processes and appraisal of loan beneficiaries, lack of proper training for both the vetting committee and the loan beneficiaries. Poor record keeping making the identification of the loan defaulters very hard, constant political interference thus leading to influence the committee to issue loans to non-deserving beneficiaries and also hampering the efforts for us to enforce the recovery of the loans

This was also worsened by the closure of several businesses due to covid pandemic as well as closure of the largest sugar mill within the county. We are however working hard to recover these loans through constant follow up of defaulters. We however feel that this is not the only solution to this problem and therefore recommend that a more stakeholders engagement is done to chat the future of the fund such as instituting legal action to be taken on the loan defaulters for loan recovery

**Recommendations and opportunity for improvement**

- The management should review the general operation of the fund to ensure an effective system is put in place with officers who will be fully committed to the fund and report directly to the administrator
- The management should adopt an appropriate recourse to ensure that the funds in default are recovered through more stringent measures
- The management should sanction the individuals that are deliberately in default or take legal action against them
- Need for us to enhanced scrutiny while vetting loan of loan applicants to ensure only genuine beneficiaries are given loans

**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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**5. Report of The Fund Administrator**

The County Trade Development Fund was established as a revolving fund, upon realization that a majority of the County entrepreneurs could not access affordable credit facility from our local and foreign mainstream banks due to high interest rates, cumbersome loan procedures and documentation, lack of collateral to use as security for the loans and lack of information on how to access the loans.

The fund was therefore established with the objective of capacity building the MSMEs through offering relevant trainings financial literacy, Entrepreneurship and loan management. The fund also provides affordable credit facilities through to traders through offering loans to them. This was in order to help the MSMEs which were not able to access the loans from Banks Sacco and Microfinance in the villages to access these funds by establishing a revolving fund at each of the 45 wards to enable them access both the knowledge and funds.

**Administration of the Fund**

The fund is administered both at the county and ward levels. The key mandate of administering the fund is vested on the fund administrator as per the PFM act who is to manage the day to day activities of the fund and quarterly or from time to time issue report to the county trade board to ensure the regulations are followed.

The administration of the fund has however had challenges both at the county level and the ward due to the lean staff both at the department of trade and the fund since the secretariat only has 4 staff. At the ward level we have had challenges since although the fund is domiciled in trade the implementers are in public administration and finance. This has proven to be an ineffective system since the said officers are fully engaged in other core activities of their departments and therefore not fully dedicated to the fund this had then made it hard for them to effectively manage the fund at the ward level.

These has therefore led to increased loan defaulters, since the lean staff at the secretariat cannot be able to fully follow up the defaulters. We therefore request the department to engage the relevant authorities to second more officers to the fund to help us effectively manage the fund.

**Training & Capacity Building**

During this financial year we were not able to carry out the trainings as earlier planned. This was mainly due to financial constrains since most of our trainings are carried out at the ward level. These trainings were informed by the realization of the need to do more elaborate trainings on loan management to both the committee members vetting loans as well as the loan beneficiaries. This would then enable them to be equipped with knowledge on loan management & Record keeping, entrepreneurship, credit management, marketing, costing and general financial literacy to ensure they are more informed.

The fund has partnered with the Kenya Institute of Business Training (KIBT) and our bankers Equity in collaboration with the department of trade to do an elaborate training.

This was informed by the need to do a more elaborate and continuous training for business people in the various wards irrespective of whether they applied for a loan or not.

**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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- Proper records management at the wards level to ensure the credible data is in place
- The Fund should develop a risk register and put in place effective strategies for managing the embedded risks
- The Fund should carry out ageing analysis of debts so as to effectively manage the debts differentially
- Need to diversify the loan product to ensure it covers a wide sector with tailored products to meet all the market demands. Eg Asset/commodity financing, Agri business
- There is need to diversify the funds sources of income and not only rely on exchequer releases
- The Fund should enhance education of loan applicants to enhance voluntary repayments and clear loan understanding of consequences of loan default to both the fund and them as individuals
- The Regulations should be revised so as to provide for more recourses in case of default all those defaulters in order to help us recover this funds

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

**SITATI STEPHEN**  
**FUND ADMINISTRATOR**

**6. Statement of Performance Against the County Fund's Predetermined Objectives**

**Introduction**

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

The key development objectives of Bungoma County Government Trade Development Loan Fund

a) **Provide Access to the affordable credit facilities**-The fund has a loan portfolio of Ksh 118,737,863 disbursed to more than 4,000 beneficiaries, and revolved Ksh 89,094,316. During the year we did not budget for loan disbursement as we had a treasury circular in place for us to concentrate on follow up of loan defaulters.

We however linked the beneficiaries to other government lending institutions such as women fund uwezo and youth enterprise fund as well as other commercial lending institutions offering various subsidized credit facilities

b) **Capacity Building** - is one of the key objective of the fund. We have thus partnered engaged the services of the Trainers from the Kenya Institute of Business Training (KIBT, Equity Bank and the other stakeholders in offering elaborate trainings to the traders in the county. We have so far trained more than 1000 beneficiaries from the entire county and intend to do more trainings in the next financial year to capacity build both the traders and loan beneficiaries.

During the year we did not have physical trainings due to lack of budgetary allocation and poor loan repayments. we however did virtual trainings in collaboration with the other stakeholders like equity bank and chamber of commerce to offer continuous training activities to the traders on book keeping, costing, marketing and financial literacy



**Bungoma County Trade Development Loan Fund  
Annual Report and Financial Statements for the year ended June 30, 2022**

Below we provide the progress on attaining the stated objectives:

Program	Objective	Outcome	Indicator	Performance
Capacity Building	To offer financial literacy and other relevant training for MSMEs on entrepreneurship & Loan Management	Increased number of entrepreneurs accessing knowledge and skills on financial literacy in the County	% of entrepreneurs undertaking the trainings and seminars	In FY 21/22 we increased no of entrepreneurs attending trainings and seminars this was mainly online due to Covid pandemic
Program 2 Loan Disbursement	Objective To of Offer Access to affordable credit facilities to traders within the county	Outcome Increased no of businesses Improved living standards of the traders as well Growth of MSMEs doing businesses	Indicator % of entrepreneurs accessing affordable credit services	Performance In the FY 21/22 we did not disburse any finances we however linked several businesses to financial institutions offering covid funds.

**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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**7. Corporate Governance Statement**

The Bungoma County Trade Development Loans Fund was established as a revolving fund to be domiciled in the department of Trade Energy and industrialization

**Objectives of the Fund-**The object and the purpose of the Fund shall be to:

- (a) To facilitate access to affordable credit to micro, small and medium scale entrepreneurs;
- (b) Capacity build through training of Micro, Small & Medium Entrepreneurs and nurture the culture of borrowing and prompt loan

**The management structure of the fund**

The fund is administered at 3 distinct levels as per the regulation the 3 three Levels are

- The County Trade Development Loan Fund Board
- The Fund unit or secretariat at the county head quarters
- The ward committees(Ward Administrators, Credit officers & representatives from business community

**Establishment of the Bungoma County Trade Development Loans Fund Board**

(1) There is established a Committee to be known as the Bungoma County Trade Development Loans Fund Committee which shall consist of:-

- The County Chief Officer in the County department for the time being responsible for matters relating to trade who shall be the Chairperson;
- The County Chief Officer in the County department for the time being responsible for finance or a representative appointed in writing;
- The Head of legal services in the county or a representative appointed in writing;
- Five persons, not being public officers, who shall be appointed by the Member of the Executive Committee through a competitive and transparent recruitment process; and
- The Fund Administrator appointed under Regulation 14, who shall be the secretary to the Board

**Functions of the County Trade loans Board**

The functions of the board are to:-

- formulate policies relating to the Fund including credit policy;
- advise Bungoma County Government on the structure and operations of the Fund;
- establish uniform standards for the operations of the fund;
- administer the property and funds of the Fund in such a manner and for such purpose as shall promote the functions of the Fund;
- mobilize resources for the enhancement of the Fund's mandate;
- partner with other governments for purposes of creating cooperation and partnership in the management of the Fund;
- keep disaggregated data by sex, age, region and other relevant regulations;
- undertake periodic review of the legal framework;
- formulate training, development and capacity building programmes for its employees;
- ensure compliance within the Fund operations, sound financial management regulation;

**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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- provide where necessary management support services to eligible persons;
- protect the long term viability of the Fund;
- collaborate with relevant institutions so as to promote access to credit and other financial services;
- monitor and evaluate the performance of the Fund; and
- Perform any other functions assigned to it under this Regulations or any other written law.

**Composition of the unit**

The unit shall consist of:-

- a Fund Administrator and
- Such staff as the Committee may consider necessary for the performance of the functions of the unit under these Regulations.

(2) In the performance of its functions the unit shall:-

- conduct civic education to promote the awareness and understanding of the operations of the Fund amongst stakeholders;
- provide capacity building to beneficiaries to ensure the effective use, the funds borrowed under these Regulations
- develop framework that will ensure an open, transparent and efficient use of funds borrowed under these Regulations;
- conduct research and gap analysis to ensure continuous performance improvement of the Fund;
- assist micro, small and medium enterprises , where the unit considers it necessary, to design, identify, select, prioritise, appraise, evaluate and negotiate investment opportunities what will result in maximum benefits;
- maintain a record of all Fund documentation;
- assist the Member of the Executive Committee in formulating guidelines and standard documentation required under these Regulations
- Carry out such other functions as may be conferred on it by the Member of the Executive Committee and these Regulations.

(3) The unit shall prepare financial accounts and an inventory of any monies allocated to it, any financial support received by it and any success fees received by it from a private party or project company as the case may be, under these Regulations.

**Establishment of Ward Committees**

There is established for each ward a Ward Committee which shall consist of;

- Ward Administrator who shall be the secretary to the committee ;
- Credit officers.

The key functions of the ward committees is

- Issue loan to the applicants
- Appraisal of the loan applicants
- Vetting of the loan applications
- Record keeping of the applicants
- Receipting of the loan repayments
- Follow up of the loan defaulters

**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**8. Management Discussion and Analysis**

**Portfolio of the Fund**

The loan portfolio of the fund is therefore Kshs 118, 737, 863 from the exchequer releases. We were however unable to get any funding from the FY 2017/2018 to date

**Amount disbursed**

The fund disbursed an initial seed capital of Kshs 96,293,677 as 1<sup>st</sup> and 2<sup>nd</sup> Disbursements to all the Wards to 4,115 beneficiaries in the month of July 2014 and April 2015 for first and second disbursement respectively as tabulate

DISBURSEMENT	NO OF WARDS	NO OF BENEFICIARIES	AMOUNT DISBURSED
1	45	1989	48,578,000.00
2	45	2126	47,715,677.00
<b>TOTAL</b>		<b>4115</b>	<b>96,293,677.00</b>

**Amount Revolved**

We have so far revolved Ksh89, 094,316 from July 2015 to June 2019 to 3,486 beneficiaries. The tabulation of the amount revolved is as below:

REVOLVING-	NO OF WARDS	NO OF BENEFICIARIES	AMOUNT REVOLVED
FIRST	17	519	11,167,456.00
SECOND	10	237	5,425,000.00
THIRD	12	433	10,274,700.00
FOURTH	16	492	11,077,000.00
FIFTH	11	279	5,655,000.00
SIXTH	15	338	8,143,160.00
SEVENTH	2	313	8,555,000.00
EIGHTH	7	45	2,145,000.00
NINETH	10	97	4,620,000.00
TENTH	8	36	1,575,000.00
ELEVENTH	5	41	1,540,000.00
TWELFTH	12	163	4,755,000.00
THIRTEENTH	5	59	2,175,000.00
FORTEENTH	7	95	2,240,000.00
FIFTEENTH	11	53	1,640,000.00
SIXTEENTH	5	5	240,000.00
SEVENTEENTH	8	109	2,297,000.00
EIGHTEENTH	5	41	1,390,000.00
NINETEENTH	12	30	1,000,000.00
TWENTIETH	5	32	830,000.00
TWENTY FIRST	14	69	2,350,000.00
		<b>3486</b>	<b>89,094,316.00</b>

**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**


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**Loan Default:** The fund has had high default specifically for loans issued in 2014. This was contributed by the poor loan vetting processes and appraisal of loan beneficiaries, lack of proper training for both the vetting committee and the loan beneficiaries. Poor record keeping making the identification of the loan defaulters very hard, constant political interference thus leading to influence the committee to issue loans to non-deserving beneficiaries

During the year there was a steady drop in loan repayment due to the covid pandemic which led to the closure of various business enterprises

We are however working hard to recover these loans through constant follow up of defaulters.

We however feel that this is not the only solution to this problem and therefore recommend legal action on. We have however made tremendous impact as evidenced by the amount recovered and revolved in loan recovery since inception

Signed: 

**SITATI M.STEPHEN**  
**FUND ADMINISTRATOR**

**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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**9. Report of the Trustees.**

The Trustees submit their report together with the audited financial statements for the year ended June 30, 2022, which show the state of the Fund affairs.

**9.1 Principal activities**

The principal activities of the Fund are

- Capacity builds traders through training and mentoring them
- Provision of affordable credit to the MSMEs

**9.2 Performance**

The performance of the Fund for the year ended June 30, 2022, are set out on page 22-38

**9.3 Trustees**

The members of the Trade Loan Committee who served during the year are shown on page 2. There were no changes in the Board during the financial year are as shown below:

**9.4 Auditors**

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015. OR Certified Public Accountants were nominated by the Auditor General to carry out the audit of the *County Trade development Loan Fund* for the year/period ended June 30, 2022 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf].

By Order of the Board

Sign: 

Name: DENSON W. BARASA

Chair of the Board/ Fund Administration Committee

Date: 2/21/2023


**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

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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**

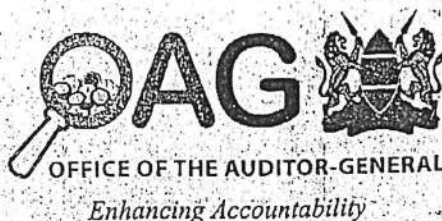
The Bungoma County Trade Development Loan Fund financial statements were approved by the Board on \_\_\_\_\_ 2022 and signed on its behalf by:

  
.....

**Administrator of the County Public Fund**

# REPUBLIC OF KENYA

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



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

## REPORT OF THE AUDITOR-GENERAL ON BUNGOMA COUNTY TRADE DEVELOPMENT LOANS FUND FOR THE YEAR ENDED 30 JUNE, 2022

### PREAMBLE

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

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

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

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

### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Bungoma County Trade Development Loans Fund set out on pages 1 to 24, which comprise of the statement of



financial position as at 30 June, 2022 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 Bungoma County Trade Development Loans Fund as at 30 June, 2022 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis), the Public Finance Management Act, 2012 and comply with the Bungoma County Trade Development Loans Fund Regulations, 2014.

### **Basis for Qualified Opinion**

#### **1. Undisclosed Material Uncertainty Relating to Sustainability of Services**

The statement of financial position reflects a balance of Kshs.115,679,790 in respect to current portion of long-term receivables from exchange transactions arising from loan disbursements to beneficiaries since 2014 when the Fund was established. However, review of the documents provided for audit revealed that the last time loans were issued was in 2019. At that time, there were outstanding loans amounting to Kshs.104,189,595, which were expected to have been repaid by the end of 2020. This indicates that the Fund is not in a position to disburse new loans and that there are challenges in effecting recoveries. This has not been disclosed in the financial statements.

In the circumstances, continued sustainability of the Fund is doubtful.

#### **2. Cash and Cash Equivalents**

The statement of financial position reflects a balance of Kshs.3,425,622 in respect of cash and cash equivalents which, as disclosed in Note 4 to the financial statements, includes a balance of Kshs.340,717 held in an M-pesa account. However, an M-pesa statement as at 30 June, 2022 was not provided to support the balance.

Further, as disclosed in Note 4, the operations account reflects a balance of Kshs.3,081,182 which, however, is at variance with the reconciled balance of Kshs.4,203 shown in the bank reconciliation statement for the month of June, 2022. The variance of Kshs.3,076,979 has not been explained or reconciled.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.3,425,622 as at 30 June, 2022 could not be confirmed.

#### **3. Current Portion of Long - Term Receivables from Exchange Transactions**

##### **3.1 Unsupported Receivables Balance**

The statement of financial position reflects a balance of Kshs.115,679,790 in respect of current portion of long-term receivables from exchange transactions which, as disclosed

in Note 5 to the financial statements, comprises of Kshs.13,877,454 and Kshs.101,802,336 relating to interest receivable and current loan repayments due respectively. However, loan repayment schedules were not provided to support the balance.

In addition, and as reported in the previous year's report, analysis of the list of defaulters revealed that one hundred eighty-eight (188) defaulters are staff of the County Executive of Bungoma who, collectively, were in arrears amounting to Kshs.4,728,004. No explanation was provided for the failure to recover these loans from the staff of the County Executive.

In the circumstances, the fair valuation and recoverability of the current portion of long-term receivables balance of Kshs.115,679,790 could not be confirmed.

### **3.2 Loan Recoveries**

In addition, the statement reflects a balance of Kshs.115,679,790 in respect of current portion of long-term receivables from exchange transactions and a comparative balance of Kshs.115,775,298. The difference of Kshs.95,508 represents loan recoveries during the year under review. However, the statement of cash flows reflects loan recoveries of Kshs.202,864. The variance of Kshs.107,356 has not been explained or reconciled.

In the circumstances, the accuracy of the loan recoveries amount during the year under review could not be confirmed.

### **4. Statement of Comparison of Budget and Actual Amounts**

The statement of comparison of budget and actual amounts reflects, under transfers from County Government, final budget and actual on comparable basis amounts of Kshs.1,200,000 and nil respectively, with a nil difference instead of Kshs.1,200,000. Similarly, the statement reflects, under total income, final budget and actual on comparable basis amounts of Kshs.1,317,500 and Kshs.10,143 respectively, with a difference of Kshs.107,357 instead of Kshs.1,307,357.

In the circumstances, the accuracy and completeness of the statement of comparison of budget and actual amounts could not be confirmed.

### **5. Assets**

#### **5.1 Property, Plant and Equipment**

The statement of financial position reflects a nil balance in respect of property, plant and equipment which, as disclosed in Note 6A to the financial statements, relates to ICT equipment and which have fully been depreciated. However, no explanation was provided on why the assets have not been revalued to give them new values since they are still being used by the Fund. In addition, ownership documents for the assets were not provided for audit review.

Further, although Management explained that the assets were acquired by the County Executive of Bungoma through the Department of Trade in 2018/2019 and have remained

with the Department to date, it was not explained why the assets are being reflected in the financial statements of the Fund instead of financial statements of the County Executive.

In addition, the balance was not supported by a fixed assets register showing details relating to the nature or type of asset, date of acquisition, cost, supplier, unique identification number, current value, current location, user, accumulated depreciation and net book values.

In the circumstances, the accuracy, ownership, fair valuation and completeness of the nil balance on property, plant and equipment could not be confirmed.

## 5.2 Intangible Assets

The statement of financial position, and as disclosed in Note 6B to the financial statements, reflects an intangible assets balance of Kshs.8,484,228. However, although Management has indicated that the assets were acquired in 2018/2019 by the County Executive through the Department of Trade, it was not explained why the assets are reflected in the financial statements of the Fund instead of financial statements of the County Executive.

× Further, the statement indicates that intangible assets are under Note 6B while in the Notes to the financial statements, intangible assets are shown under Note 6A.

In the circumstances, the accuracy and ownership status of the intangible assets valued at Kshs.8,484,228 could not be confirmed.

## 6. Unsupported Balances - Statement of Financial Performance

### 6.1 Interest Income

The statement of financial performance reflects an amount of Kshs.117,500 in respect of interest income which, as disclosed in Note 1 to the financial statements, relates to interest income from loans. However, supporting schedules were not provided for audit review.

In the circumstances, the accuracy and completeness of the amount of Kshs.117,500 in respect of interest income could not be confirmed.

### 6.2 Board and Committee Expenses

The statement of financial performance reflects an amount of Kshs.718,900 in respect of general expenses which, as disclosed in Note 2 to the financial statements, includes an amount of Kshs.678,300 relating to board and committee expenses. However, board minutes, attendance registers and detailed schedules were not provided to support the amount.

Further, the statement indicates that Note 2 is on general expenses while in the notes to the financial statements, Note 2 is on use of goods and services.

In the circumstances, the accuracy of the amount of Kshs.678,300 on board and committee expenses could not be confirmed.

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

### **Key Audit Matters**

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

### **Other Matter**

#### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.1,317,500 and Kshs.10,143 respectively, resulting to under-funding of Kshs.1,307,357 or 99% of the budget. Similarly, the statement reflects actual expenditure of Kshs.718,900 against approved budget of Kshs.1,317,500 resulting to under-performance of budget by Kshs.598,600 or 45% of the budget.

The under-funding and under-performance of the budget affected the planned activities and may have impacted negatively on service delivery to the public.

#### **2. Unresolved Prior Year Matters**

In the audit report of the previous year, a number of issues were raised under Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not resolved the issues nor disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board template. The issues reported in the progress on follow up of prior year auditor's recommendations do not relate to 2020/2021, but relate to 2019/2020 financial year.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing

else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Non-compliance with the Public Sector Accounting Standards Board Template**

The financial statements submitted for audit did not reflect the following information contrary to the requirements of the Public Sector Accounting Standards Board reporting template: the financial statements reflect incorrect numbering of the key Fund information and Management; photographs of committee and management members are not shown; the report by the Fund Administrator is not signed; the date of approval of the financial statements is not indicated; and the statement of comparison of budget and actual amounts is indicated for the period instead of the year ended.

In the circumstances, the financial statements were not prepared in accordance with the accounting standards as prescribed by the Public Sector Accounting Standards Board template.

#### **2. Failure to Gazette the Fund's Regulations**

The County Government of Bungoma established the Bungoma County Trade Development Loans Fund vide County Assembly approval in a special sitting of 15 December, 2014. However, although procedural requirements had been obtained up to the passage of the Regulations by the County Assembly, the Regulations have not been gazetted to date to give effect to the establishment of the Fund. This is contrary to Article 199(1) of the Constitution, which provides that County legislation does not take effect unless published in the Gazette.

In the circumstances, Management was in breach of law.

#### **3. Lack of Budget for the Fund**

Management did not provide a budget for the Fund to support the balances in the statement of comparison of budget and actual amounts. Consequently, the source of the balances reflected in the statement of comparison of budget and actual amounts could not be confirmed. This is contrary to Section 149(2)(h) of the Public Finance Management Act, 2012, which states that in carrying out a responsibility imposed by Subsection (1), an accounting officer shall, in respect of the entity concerned, prepare estimates of expenditure of the entity in conformity with the strategic plan.

In the circumstances, Management was in breach of law.

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

# REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

## Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed. I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal 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 controls, risk management and overall governance.

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

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

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

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

## Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal control, 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 the 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 sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures, as I consider necessary in the circumstances.

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

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

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

09 February, 2023







Bungoma County Trade Development Loan Fund  
Annual Report and Financial Statements for the year ended June 30, 2022

12..Statement of Financial Performance For The Year Ended 30th June 2022

	Note	2021/2022	2020/2021
		KShs	KShs
Revenue from exchange transactions			
Interest income	1	117,500	117,500
<b>Total revenue</b>		<b>117,500</b>	<b>117,500</b>
Expenses			
General expenses	2	718,900	956,190
Depreciation and Amortization Expense	3	297,297	900,901
<b>Total expenses</b>		<b>1,016,198</b>	<b>1,857,091</b>
<b>Surplus/( deficit)fortheperiod</b>		<b>(898,698)</b>	<b>(1,739,591)</b>

(The notes set out on pages 1 to 21 form an integral part of these Financial Statements)

  
Name: \_\_\_\_\_  
Administrator of the Fund


  
Name: E. W. Walegy  
Fund Accountant  
ICPAK Member Number: 29702


**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

**13. Statement of Financial Position As At 30 June 2022**

	Note	2021/2022	2020/2021
		KShs	KShs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	3,425,622	3,931,515
Current portion of long term receivables from exchange transactions	5	115,679,790	115,775,298
		119,105,412	119,706,813
<b>Non-current assets</b>			
Property, plant and equipment	6A	-	297,297
Intangible assets	6B	8,484,228	8,484,228
<b>Total assets</b>		<b>8,484,228</b>	<b>8,781,525</b>
<b>Net assets</b>		<b>127,589,640</b>	<b>128,488,338</b>
Revolving Fund		119,490,287	119,490,287
Accumulated surplus		8,099,353	8,998,051
<b>Total net assets and liabilities</b>		<b>127,589,640</b>	<b>128,488,338</b>

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 \_\_\_\_\_ 2022 and signed by:

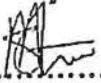
.....  
 Name:   
**Administrator of the Fund**

.....  
 Name:   
**Fund Accountant**  
 ICPAK Member Number: 29202

**Bungoma County Trade Development Loan Fund**  
**Annual Report and Financial Statements for the year ended June 30, 2022**

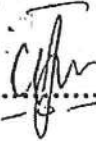
**14. Statement Of Changes in Net Assets for the year ended 30<sup>th</sup> June 2022**

	Revolving Fund	Accumulated surplus	Total
		KShs	KShs
Balance as at 1 July 2020	119,490,287	8,172,622	127,662,909
Deficit for the period	-	(1,739,591)	(1,739,591)
Prior year adjustments	-	2,565,020	2,565,020
Balance as at 30 June 2021	119,490,287	8,998,051	128,488,338
Balance as at 1 July 2021	119,490,287	8,998,051	128,488,338
Deficit for the period		(898,698)	(898,698)
Balance as at 30 June 2022	119,490,287	8,099,353	127,589,640



Name:

Administrator of the Fund



Name:

Fund Accountant

ICPAK Member Number: 29202

Bungoma County Trade Development Loan Fund  
Annual Report and Financial Statements for the year ended June 30, 2022

15. Statement Of Cash Flows For The Year Ended 30 June 2022

	Note	2021/2022	2020/2021
		KShs	KShs
<b>Cashflows from operating activities</b>			
Receipts			
Interest received			
<b>Total Receipts</b>	1	10,143	58,502
Payments		10,143	58,502
General expenses			
<b>Net cashflows from operating activities</b>	2	718,900	956,190
		(708,757)	(897,688)
<b>Cash flows from investing activities</b>			
Proceeds from loan principal repayments			
<b>Net cashflows used in investing activities</b>	7	202,864	1,150,045
		202,864	1,150,045
<b>Cashflows from financing activities</b>			
<b>Net cashflows used in financing activities</b>		-	-
<b>Net increase/(decrease) in cash and cash equivalents</b>		(505,893)	252,357
Cash and cash equivalents at 1 July 2021		3,931,515	3,679,158
<b>Cash and cash equivalents at 30 June 2022</b>		<b>3,425,622</b>	<b>3,931,515</b>



Name:

Administrator of the Fund



Name:

Fund Accountant

ICPAK Member Number: 29202

16. Statement Of Comparison Of Budget And Actual Amounts For The Period

	Original budget 2021/2022	Adjustments 2021/2022	Final budget 2021/2022	Actual on comparable basis 2021/2022	Performance difference 2021/2022	% utilisation 2021/2022
	KShs	KShs	KShs	KShs	KShs	
Revenue	✓					
Transfers from County Govt.	1,200,000	-	1,200,000	1,200,000	-	0%
Interest income	117,500	-	117,500	10,143	107,357	9%
<b>Total income</b>	<b>1,317,500</b>	<b>-</b>	<b>1,317,500</b>	<b>1,07,187</b>	<b>107,357</b>	<b>1%</b>
Expenses						
General expenses	1,317,500	-	1,317,500	718,900	598,600	55%
<b>Total expenditure</b>	<b>1,317,500</b>	<b>-</b>	<b>1,317,500</b>	<b>-</b>	<b>-</b>	<b>0%</b>
<b>Surplus for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>718,900</b>	<b>718,900</b>	

Budget notes

1. The 0% & 9% on transfers from county & interest income respectively is due no exchequer releases during the financial year and we have also not been disbursing loans meaning the revenue was a steady decrease in the interest income since we could not get the 5% administrative fee charged on loans as processing fee. We were also not able to follow up on the loan default due to the volatile political environment
2. The variance between the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis, statement of financial performance is accrual)

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Standard	Effective date and impact
	<ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul>
<p><b>IPSAS 42: Social Benefits</b></p>	<p><b>Applicable: 1<sup>st</sup> January 2023</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <ul style="list-style-type: none"> <li>(a) The nature of such social benefits provided by the Entity;</li> <li>(b) The key features of the operation of those social benefit schemes; and</li> <li>(c) The impact of such social benefits provided on the Entity's financial performance, financial position and cash flows.</li> </ul>
<p><b>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</b></p>	<p><b>Applicable: 1st January 2023:</b></p> <ul style="list-style-type: none"> <li>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</li> <li>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted</li> </ul>

*Summary Of Significant Accounting Policies (Continued)*

**c) 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.

**d) 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.

**a) 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)*

**5. Significant judgments and sources of estimation uncertainty**

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

State all judgements, estimates and assumptions made e.g.

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

**b) 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

**c) Provisions**

Provisions were raised and management determined an estimate based on the information available.

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.

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6. Notes To The Financial Statements

1. Interest income

1. Interest income		
Description	2021/2022	2020/2021
	KShs	KShs
Interest income from loans	117,500	117,500
<b>Total interest income</b>	<b>117,500</b>	<b>117,500</b>

This reflects the 5% interest on loan repayments

2. Use of Goods and Services

2. Use of Goods

Description	2021/2022	2020/2021
	KShs	KShs
Telecommunication	40,000	121,000
Boards and committee	678,300	831,400
Other expenses	600	3,790
<b>Total</b>	<b>718,900</b>	<b>956,190</b>

3. Depreciation and Amortization Expense

Description	2021/22	2020/21
	Kshs	Kshs
Property Plant and Equipment	297,297	900,901
<b>Total</b>	<b>297,297</b>	<b>900,901</b>

4. Cash and cash equivalents

Description	FY2021/2022	FY2020/2021
	KShs	KShs
Current account	3,084,905	3,589,798
Others	340,717	341,717
<b>Total cash and cash equivalents</b>	<b>3,425,622</b>	<b>3,931,515</b>

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

Financial institution	Account number	2021/2022	2020/2021
		KShs	KShs
<b>a) Current account</b>			
Equity Bank -OPERATION ACC	0480262513336	3,081,182	3,585,595
Equity Bank -COLLECTIN ACC	0480272137974	3,723	4,203
<b>Sub- total</b>		<b>3,084,905</b>	<b>3,589,798</b>
<b>b) Others(specify)</b>			
M Pesa-WORKING ACC		340,717	340,717
M Pesa-UTILITY ACC		-	1,000
<b>Sub- total</b>		<b>340,717</b>	<b>341,717</b>
<b>Grand total</b>		<b>3,425,622</b>	<b>3,931,515</b>

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Notes To The Financial Statements (Continued)

5. Receivables from exchange transactions

Description	2021/2022	2020/2021
	KShs	KShs
<b>Current Receivables</b>		
Interest receivable	13,877,454	13,770,097
Current loan repayments due	101,802,336	102,005,201
<b>Total Current receivables</b>	<b>115,679,790</b>	<b>115,775,298</b>
<b>Total receivables from exchange</b>	<b>115,679,790</b>	<b>115,775,298</b>

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 Notes To The Financial Statements (Continued)

6. Property, plant and equipment

6A. Ict Equipment.

Cost	ICT EQUIPMENT	Total
	KShs	KShs
At 1st July 2020		
Additions	3,000,000	3,000,000
At 30th June 2021		
At 1st July 2021	3,000,000	3,000,000
Additions		
At 30th June 2022	3,000,000	3,000,000
Depreciation and impairment		
At 1st July 2020		
Depreciation	1,312,500	
Prior year depreciation adjustments	900,901	1,312,500
At 30th June 2021	489,302	900,901
At 1st July 2020	2,702,703	489,302
Depreciation		2,702,703
At 30th June 2021	2,702,703	2,702,703
Net Book Value	297,297	297,297
As at 30th June, 2021	3,000,000	3,000,000
As at 30th June, 2022	297,297	297,297
Recalculated Depreciation based on The National Treasury's Guidelines (Useful life of 3.33 years; straight line method)		
Cost		
Depreciation in year 1: 18/19		
Recalculated Depreciation		3,000,000
Prior year depreciation	900,901	
Depreciation undercharge	750,000	
Depreciation in year 2: 19/20		
Recalculated Depreciation		150,901
Prior year depreciation		
Depreciation undercharge	900,901	
Total Depreciation undercharge	562,500	
Depreciation in year 3: 20/21		
Written Down Value	900,901	900,901
		297,297

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**6A. Ict Equipment.**

Description	2021/2022	2020/2021
Cost	KShs	KShs
At beginning of the year	8,484,228	8,484,228
At end of the year	8,484,228	8,484,228
Amortization and impairment		
Prior year adjustments	-	3,054,322
NBV	8,484,228	8,484,228

*NB: Change in amortization Policy was changed to align the amortization to The National Treasury's Guidelines for Management of Specific Categories of Assets and Liabilities. The previous amortizations were based on the Draft County Government's Asset Management Policy, as The National Treasury's Guidelines had not been issued. Sec. 4.3.5.2(2) of the Guidelines provides that an intangible asset that has an indefinite useful life is not amortised if there are no legal, contractual, regulatory, technological, or other factors that limit its useful life. In the current circumstances, there are no limitations on the asset, the asset is renewed on a yearly basis and there is no foreseeable future when the use of the asset is expected to be limited*

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Notes To The Financial Statements (Continued)

7. Principal loan Repayment.

	2021-2022	2020-2021
	Kshs	Kshs
Proceeds from loan Principal Repayments	202,864	1,150,045
<b>Net Cash Flow From Operating Activities</b>	<b>202,864</b>	<b>1,150,045</b>

8. Revolving Fund.

	Amount Received	Rate	2021-2022
			Kshs
Transfers from county Government- 2014/15	100,000,000	97	97,000,000
Transfers from county Government- 2015/16	13,828,000	97	13,413,160
Transfers from county Government- 2017/18	9,357,863	97	9,077,127
<b>Total</b>	<b>123,185,863</b>		<b>119,490,287</b>

**Other Disclosures**

**9. Financial risk management**

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

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

**a) Credit risk**

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

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

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

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

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

**b) Liquidity risk management**

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

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

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**c) Market risk**

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

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

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

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

**i. Interest rate risk**

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The entity's interest rate risk arises from bank deposits. This exposes the Fund to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Fund's deposits.

***Management of interest rate risk***

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

***Sensitivity analysis***

The Fund analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

**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:



