

REPORT OF THE AUDITOR-GENERAL ON BUNGOMA COUNTY DISABILITY EMPOWERMENT FUND FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Bungoma County Disability Empowerment Fund set out on pages 1 to 16, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows 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 effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Bungoma County Disability Empowerment Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and the Bungoma County Disability Empowerment Fund Regulations, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Basis for Qualified Opinion section, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective manner.

Basis for Qualified Opinion

Use of Principal Funds on Recurrent Expenditures

During the year under review, expenditure incurred on purchase of goods and services totaled Kshs.1,219,978 as shown in the statement of receipts and payments for the year ended 30 June 2017. The expenditure exceeded the allowable limit of 3% of the approved budget of Kshs.18,000,000 equivalent to Kshs.540,000. Therefore the difference being Kshs.679,978 was taken out of the Fund's principal balance to finance the operating deficit.

Further review revealed that as at 30 June 2017, the Fund had since its inception in the 2014-15 financial year received grants totaling Kshs.7,535,256 from the County Executive. Revolving fund principles dictate that a Fund's principle balance at any time should be equal to or more than the initial funds received for lending by the Fund but this was not the case with Bungoma County Disability Empowerment Fund as at 30 June 2017 as analyzed below:

Details	Amount-Kshs
Funds disbursed since Inception of the Fund	7,535,256
Bank balance	319,871
Outstanding loans	4,740,585

	5,060,456
Balancing Figure being deficit in the fund account utilized as operating expenditures and not recoverable for lending.	(2,474,800)

As the tabulation shows, the management had as at 30 June 2017 spent Kshs 2,474,800) of the Fund's principle balance on operations contrary to established principles on management of revolving funds. As a result, the capacity of the Fund to extend loans to its beneficiaries has been severely constrained and its's operations may not be sustainable over the long run should the trend continue.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Bungoma County Disability Empowerment Fund in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

Insufficient Budgetary Provision

The Fund had budgeted to receive Kshs. 18,000,000 during the year under review with a view to increase its lending portfolio. However, the County Executive did not transfer funds, hence the Fund could not meet its objective of increasing lending to the disabled in Bungoma County.

Responsibilities of Management's for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern assumption, unless the management is aware of the intention to cease operations.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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. As part of an audit 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's 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 going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue offering services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial

statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.

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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

08 August 2018