

REPORT OF THE AUDITOR-GENERAL ON TRANS NZOIA COUNTY (EXECUTIVE) CAR LOAN AND MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2021

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 purpose.
- 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

Adverse Opinion

I have audited the accompanying financial statements of Trans Nzoia County (Executive) Car Loan and Mortgage Scheme Fund set out on pages 14 to 38, which comprise of the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the

financial position of Trans Nzoia County (Executive) Car Loan and Mortgage Scheme Fund as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and do not comply with the Public Finance Management Act, 2012, and Public Finance Management (The Trans Nzoia County (Executive) Car Loan and Mortgage Scheme Fund) Regulations, 2018.

Basis for Adverse Opinion

1.0 Unsupported Interest Income

The statement of financial performance reflects interest income of Kshs.892,262 as disclosed in Note 2 to the financial statements. However, the amount which relates to interest income from mortgage loans was not supported by loan analysis schedules.

In the circumstances, the accuracy and completeness of the interest income balance of Kshs.892,262 could not be confirmed.

2.0 Unsupported Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.14,719,449 as disclosed in Note 4 to the financial statements. However, bank reconciliation statements for the year under review were not provided for audit.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.14,719,449 could not be confirmed.

3.0 Unsupported Receivables from Exchange Transactions

The statement of financial position reflects current portion of long term receivables from exchange transactions of Kshs.23,010,450 and long term receivables from exchange transactions of Kshs.25,874,903. However, the balances were not supported by loan analysis schedules.

In the circumstances, the accuracy of current portion of long term receivables from exchange transactions of Kshs.23,010,450 and long term receivables from exchange transactions of Kshs.25,874,903 could not be confirmed.

4.0 Unsupported Loan Disbursements

The statement of cash flows reflects loan disbursements paid out of Kshs.32,200,000. The amount includes disbursed loans of Kshs.10,400,000 which were not supported by loan application forms, sale agreements, valuation reports, copies of insurance cover for motor vehicles, approved designs of proposed residential properties and approved Bills of Quantity, as required by Regulation 11 of the Public Finance Management (The Trans Nzoia County (Executive) Car Loan and Mortgage Scheme Fund) Regulations, 2018.

In the circumstances, the completeness and accuracy of disbursed loans of Kshs.10,400,000 could not be confirmed.

5.0 Non-Recovery of Loan Arrears

The statement of financial position reflects long-term receivables from exchange transactions of Kshs.25,874,903. The amount includes an amount of Kshs.2,314,981 for unrecovered loan arrears due from a staff member who resigned from service. However, no recoveries had been made since February, 2020 and no efforts have been put in place to ensure full recovery. This is contrary to Regulation 18 of the Public Finance Management (The Trans Nzoia County (Executive) Car Loan and Mortgage Scheme Fund) Regulations, 2018, which provides that the committee may call in a loan and in default and sell the motor-vehicle or charged property by public auction where the borrower is in breach of the terms under the loan agreement or a covenant contained in the charge of the mortgage instrument.

In the circumstances, the recoverability of receivables of Kshs.2,314,981 could not be confirmed.

6.0 Inaccuracies in the Financial Statements

The financial statements prepared and presented for audit had the following inaccuracies:

- i. The report of Board/Fund Administration Committee chairperson and that of Fund Manager/Administrator reflects transfers from Exchequer of Kshs.14,379,626 while the statement of financial performance reflects a nil balance;
- ii. The report of Board/Fund Administration Committee chairperson and that of Fund Manager/Administrator reflects interest earned of Kshs.1,177,166 while the statement of financial performance reflects Kshs.892,262 resulting to an unexplained variance of Kshs.284,904;
- iii. The report of Fund Manager/Administrator reflects cash and cash equivalents of negative Kshs.4,323,024 while the statement of financial position reflects Kshs.14,719,449 resulting to an unexplained variance of Kshs.19,042,473;
- iv. The statements of financial performance reflect comparative surplus for the year of Kshs.1,175,726 whereas the statements of financial position reflects an amount of Kshs.1,656,552 resulting to an unexplained variance of Kshs.480,826;
- v. The statement of cash flows reflects cash and cash equivalents of negative Kshs.4,323,024 while the statement of financial position reflects an amount of Kshs.14,719,449 resulting to an unexplained variance of Kshs.19,042,473;
- vi. The statement of financial position reflects revolving fund balance of Kshs.61,542,814 while the statement of changes in net assets reflects Kshs.59,000,000 resulting to an unexplained variance of Kshs.2,542,814;
- vii. The statement of financial position reflects reserves balance of Kshs.1,175,726 while the statement of changes in net assets reflects a nil balance;
- viii. The statement of financial position reflects accumulated surplus balance of Kshs.886,262 while the statement of changes in net assets reflects Kshs.2,542,814 resulting to an unexplained variance of Kshs.1,656,552;

- ix. The statement of comparison of budget and actual amount reflects transfers from county government of Kshs.14,379,626 while the statement of financial performance reflects nil balance;

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

7.0 Errors in Presentation of the Financial Statements

The annual reports and the financial statements prepared and presented for audit had the following errors: -

- i. Page numbers 1, 2, 16 and 18 are missing;
- ii. Management team, management discussion and analysis, corporate social responsibilities/corporate social responsibility statement/sustainability reporting, report of the trustees/fund administration committee and appendix i: inter-entity transfers have been omitted;
- iii. Names of the signing officers on the statement of financial position at page 15 are missing;
- iv. Note number 5 is omitted in statements of financial position and cash flows;
- v. Pages 23, 25, 26, 27,28,29, 30, 31, 33, 34 refers to entity instead of Trans Nzoia County (Executive) Car Loan and Mortgage Scheme Fund;

In the circumstances, the financial statements did not comply with the International Public Sector Accounting Standard (Accrual Basis) as prescribed by the Public Sector Accounting Standards Board.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Trans Nzoia County (Executive) Car Loan and Mortgage Scheme 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 adverse 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 report in the year under review.

Other Matter

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.39,279,402 and Kshs.15,271,888 respectively, resulting in an under-funding by Kshs.24,007,514 or 61% of the budget. Similarly, the

Fund spent Kshs.6,000 out of the approved expenditure budget of Kshs.39,279,402, resulting in an under expenditure of Kshs.39,273,402 or 99% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Lack of Approved Budget for the Fund

The statement of comparison of budget and actual amounts reflects final budget amount of Kshs.39,279,402. However, an approved budget for the year under review was not provided for audit review, as required by Section 149(2)(h) of Public Finance Management Act, 2012, which requires accounting officers to prepare estimates of expenditure of the entity in conformity with its strategic plan.

In the circumstances, Management was in breach of the law.

2.0 Failure to Jointly Register Security Deposited with The Fund

The statement of financial position reflects balances of Kshs.23,010,450 and Kshs.25,874,903 relating to current portion of long-term receivables from exchange transactions and long-term receivables from exchange transactions, respectively. However, all the loans issued under the two categories were not jointly registered between the Fund and beneficiaries, as required by Regulation 10(2) and 16(1) of the Public Finance Management (The Trans Nzoia County (Executive) Car Loan and Mortgage Scheme Fund) Regulations, 2018.

In the circumstances, Management was in breach of the 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

Report of the Auditor-General on Trans Nzoia County (Executive) Car Loan and Mortgage Fund for the year ended 30 June, 2021

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and 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 controls, 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 controls 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 governance.

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 applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015, and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but

is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015, and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls 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 controls.
- 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 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 controls 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

01 September, 2022