

## **REPORT OF THE AUDITOR-GENERAL ON BARINGO COUNTY MICRO AND SMALL ENTERPRISE FUND FOR THE YEAR ENDED 30 JUNE, 2021**

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### **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**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Baringo County Micro and Small Enterprise Fund set out on pages 27 to 67, 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, 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 Baringo County Micro and Small Enterprise 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 comply with the Public Finance Management Act, 2012 and Baringo County Micro and Small Enterprise Fund Regulations, 2020.

## **Basis for Qualified Opinion**

### **1.0 Presentation and Inaccuracies of Financial Statements**

Review of the financial statements provided revealed the following anomalies:

- i) The key entity information and Management includes lists of Fund Administration Committee Members and Key Management which are composed of same members thus contravening principle of segregation of duties, and the Fund Management Committee is not properly constituted.
- ii) The report of the Trustees/Fund Administration Committee include trustees which is not provided for in the enabling regulations.
- iii) The statement of financial position reflects a revolving fund balance of Kshs.7,903,610 which varies with the total transfers from the County Government of Kshs.22,078,448 as indicated in the report of the Fund Administrator resulting to a variance of Kshs.14,174,838. Further, the statement of financial position reflects a revolving fund balance of Kshs.7,903,610 which differs with the balance of Kshs.10,580,796 reflected in the statement of changes in net assets resulting to an unexplained variance of Kshs.2,677,186.
- iv) The statement of changes in net assets indicates that the revolving fund and accumulated surplus have been combined contrary to the Public Sector Accounting Standards Board reporting template.
- v) The statement of financial position reflects accumulated surplus balance of Kshs.2,803,045 which varies with the computed balance of Kshs.2,677,187 resulting to an unexplained difference of Kshs.125,858.
- vi) The statement of financial performance reflects a nil comparative balance in respect to fund administrative expenses whereas Note 6 to the financial statements reflects a balance of Kshs.222,240. Similarly, the comparative balance for general expenses in the statement of financial performance is reflected as Kshs.222,240 whereas Note 7 to the financial statements reflects the same as Kshs.12,096 resulting to an unexplained difference of Kshs.210,144.
- vii) The statement of cash flows reflects receipts from other operating activities of Kshs.4,784,900 which appears in the statement of financial performance as other income of Kshs.2,315,110, resulting to an unexplained difference of

Ksh.2,469,790. Further, the statement reflects interest income of Kshs.300,646 which differs from the statement of financial performance balance of Kshs.330,264 resulting to a variance of Kshs.29,618.

- viii) The statement of comparison of budget and actual amounts is incomplete and reflects nil balances for all the items.
- ix) Note 7 to the financial statements reflects bank charges expense of Kshs.15,940 which differs with the supporting documents balance of Kshs.8,920 resulting to a variance of Kshs.7,020 which was not reconciled or explained.
- x) Note 11 to the financial statements reflects total receivables from exchange transactions balance of Kshs.5,290,412 which varies with the supporting documents balance of Kshs.8,278,765 resulting to a variance of Kshs.2,988,353 which was not reconciled or explained.

In the circumstances, the accuracy and presentation of the financial statements for the year under review could not be confirmed.

## **2.0 Variance in Other Income**

The statement of financial performance reflects other income amounting to Kshs.2,315,109 which relates to loan repayments. However, the supporting schedules reflects a total of Kshs.2,469,790 resulting to an unexplained and an unreconciled variance of Kshs.154,681. Further, the loan recoveries were wrongly charged to income instead of receivables from exchange transactions.

In the circumstances, the accuracy and completeness of the other income of Kshs.2,315,109 for the year ended 30 June, 2021 could not be confirmed.

## **3.0 Unsupported Transfers from the County Government**

The statement of financial performance reflects transfers from the County Government amount of Kshs.7,903,610. However, receipt vouchers and bank statements to confirm receipt of the money was not provided for audit verification. Further, the transfers were not recorded in the cash book and were wrongly charged to receipts instead of revolving fund.

In the circumstances, the transfer from County Government balance of Kshs.7,903,610 for the year ended 30 June, 2021 could not be confirmed.

## **4.0 Unsupported Prepayments**

The statements of financial position reflects a prepayments balance of Kshs.273,515 as disclosed in Note 13 to the financial statements. However, the list of prepaid debtors was not provided for audit verification.

In the circumstances, the accuracy, completeness and existence of the prepayments balance of Kshs.273,515 as at 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Baringo County Micro and Small Enterprise 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 report in the year under review.

### **Other Matter**

### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given explanations for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates. In addition, the unresolved prior year issues were not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

## **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 matter 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**

### **Budgetary Control and Performance**

The statement of financial performance for the year ended 30 June, 2021 reflects total receipts and payments of Kshs.10,548,985 and Kshs.7,871,789 respectively. However, the approved budget estimates in support of the revenue and expenditure was not provided for audit. This contravenes Regulation 31(a) of the Public Finance Management (County Governments) Regulations, 2015 which requires that all revenue and expenditure shall be entered into the county government budget estimates.

In the circumstances, the Fund 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**

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 control, 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 control 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 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 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 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 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**

**25 July, 2022**