

REPORT OF THE AUDITOR-GENERAL ON KIRINYAGA COUNTY EDUCATION BURSARY 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 Kirinyaga County Education Bursary Fund set out on pages 20 to 59, 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 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, 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 the Kirinyaga County Education Bursary 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 County Governments Act, 2012, Public Finance Management Act, 2012 and Public Finance Management (Kirinyaga County Education Bursary Fund) Regulations, 2016.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

1.1 Variances between the Comparative Balances and the Prior Year Audited Balances

The following comparative balances were at variance with prior year audited financial statements as indicated below;

Account	Note	2020/2021 Comparative Balances (Kshs)	2019/2020 Audited Balances (Kshs)	Variance (Kshs)
Fund Administration Expenses	6	950,000	-	950,000
General Expenses	8	1,928,305	3,024,222	1,095,917
Finance Costs	9	145,917	-	145,917

In the circumstances, the accuracy and completeness of the comparative balances could not be confirmed.

1.2 Erroneous Treatment of Funds Transferred from the County Executive

The funds received from the County Executive during the year amounting to Kshs.76,500,000 were erroneously reflected under the accumulated surplus column resulting to a total balance of Kshs.91,508,389 which is at variance with the statement of financial position's net balance of Kshs.15,008,389 resulting to an unreconciled variance of Kshs.76,500,000.

1.3 Cash and Cash Equivalents

Review of the cash books and other records revealed the following anomalies;

- i. The Management did not prepare monthly bank reconciliation statements.
- ii. The statement of cash flows reflects cash and cash equivalents balance of Kshs.15,089,389. However, the annual education bursary fund report on disbursements reflected cash and cash equivalents balance of Kshs.15,706,273, resulting in unexplained variance of Kshs.616,884.
- iii. The annual education bursary fund report on bursary disbursements reflected an amount of Kshs.15,706,273 as bank balance as at 30 June, 2021, whereas certificates

of bank balances provided for twenty County wards indicated an amount of Kshs.15,919,772, resulting in an unexplained variance of Kshs.213,500.

- iv. The statement of cashflows reflects cash and cash equivalents of Kshs.15,089,389 which was at variance with the balance of Kshs.15,008,389 reflected in Note 10 to the financial statements resulting to un-explained variance of Kshs.81,000. Further, the statement of cashflows reflects a cash and cash equivalents balance of Kshs.15,089,389 as at 30 June, 2021. However, recasting of the balances indicated a net balance of Kshs.15,008,389 resulting to un-reconciled variance of Kshs.81,000.
- v. The expenditure analysis revealed aggregate bank balances as at 30 June, 2021 was Kshs.15,706,273 for ward accounts while Note 10 to the financial statements reflects a balance of Kshs.15,008,389 resulting to un-reconciled variance of Kshs.697,884.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balances could not be confirmed.

2. Inaccuracies in the Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts does not disclose the budget utilization difference. Only the total expenditure row which indicates a utilization percentage of 138% instead of 100% utilization. Further, a detailed approved budget was not provided for audit review.

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

3. Un-supported Balances in the Financial Statements

Review of the financial statements provided for audit revealed unsupported balances totalling to Kshs.165,896,290 as below;

Particulars	Note	Amount (Kshs.)	Missing Documents
Fund Administration Expenses	6	4,586,500	The post audit revised schedules and supporting journal vouchers
General Expenses	8	101,467,222	The post audit revised schedules and supporting journal vouchers
Finance Costs	9	136,034	The post audit revised schedules and supporting journal vouchers
Cash and Cash Equivalents	10	15,008,389	Bank reconciliations, approved board of survey, ledger and cash books.
Revolving Fund		44,698,145	Note and detailed supporting schedules or analysis.
Total		165,896,290	

Further, the Fund Management did not provide the general ledger and trial balance for audit review.

In the circumstances, the accuracy of the financial statement balances amounting to Kshs.165,896,290 could not be confirmed.

4. Anomalies in Scholarships and Other Educational Benefits

The statement of financial performance reflects general expenses of Kshs.101,467,222 as disclosed in Note 7 to the financial statements. The balance includes scholarship and other educational benefits amounting to Kshs.101,467,222. However, a bursary amount of Kshs.361,050 was awarded and paid in respect of students without admission numbers and bursary payments of Kshs.1,811,275 were paid twice without justification. Further, a bursary amount of Kshs.52,500 was awarded and paid in respect of students who had not applied for the same.

In the circumstances, the accuracy and validity of the bursary payments could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kirinyaga County Education Bursary 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

Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are 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, 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. Unbalanced Budget

The Fund's statement of comparison of budget and actual amounts for the year ended 30 June, 2021 reflects Kshs.76,500,000 in respect to approved revenue budget. However, the statement reflects Kshs.106,189,756 in respect to approved expenditure budget resulting to a deficit budget of Kshs.29,689,756, and therefore an imbalance in the budget contrary to Regulation 31(c) of the Public Finance Management (County Governments) Regulations, 2015 which states that budget revenue and expenditure appropriations shall be balanced.

Further, the statement of comparison of budget and actual amounts did not include Kshs.45,315,345 carried forward from the previous year. However, this is contrary to Regulation 48 of Public Finance Management (County Governments) Regulations, 2015, which states that the reallocations by the County Treasury in terms of Section 154(2) of the Act shall be included in the next revised budget for submission to and approval by the County Assembly.

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

2. Failure to Present Annual Reports to the County Assembly

Management did not provide evidence that the County Executive Committee Member prepared an annual report and submitted it to the County Assembly on the performance of the Fund, the number of beneficiaries disaggregated in accordance with gender and ward, overview of the academic performance of the students supported, overview of enrolment, retention and completion levels of students supported under the Fund.

This was contrary to Regulation 18(1) of the Public Finance Management (The Kirinyaga County Education Bursary Fund) Regulations, 2016 which provides that the Executive Committee Member shall prepare an annual report which shall be submitted to the County Executive Committee and transmitted to the County Assembly not later the last day of February each year.

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

3. Excess Expenditure - Administrative Expenses

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects Kshs.101,467,222 in respect of general expenses. However, included in the expenditure are administrative expenses of Kshs.4,586,500 which were above the limit of Kshs.3,000,000 by Kshs.1,586,500 as per Regulation 3(b) of the Kirinyaga County Education Bursary Fund which provides that the Fund shall be used for meeting any expenditure related to administration of the Fund as may be approved by the Executive Committee Member provided that not more than Kenya shillings one hundred and fifty thousand consisting of the Fund shall be utilized for administration of each Committee.

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

4. Non-Compliance with Public Sector Accounting Standards Board Requirements

The Fund's financial statements for the year ended 30 June, 2021 provided for audit review reflects the following anomalies:

- i. The table of contents includes illustrative information and instructions and the contents were not customized to correctly disclose the Fund's information.
- ii. The statement of cash flows shows balances which are not referenced to the relevant notes to the financial statements.
- iii. Pages 16 and 18 are blank, while page numbers 21, 23, 24 and 25 were not indicated in the financial statements.

In the circumstances, the Fund's financial statements did not comply with the Public Sector Accounting Standards Board (PSASB) and International Public Sector Accounting Standards Board (IPSAS) format on presentation of financial statements.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion, and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Internal Audit Function and Audit Committees

Management did not provide evidence that there exists an Internal Audit Function or an Audit Committee to review and appraise its existing internal controls, with a view to enhancing the Fund's operational efficiency, governance and compliance. In addition, it could not be confirmed that internal audits on the Fund were conducted contrary to Section 73(4) and (5) of Public Finance Management Act, 2012.

In the circumstances, the effectiveness of internal controls and governance could not be confirmed.

2. Lack of Risk Management Policy Framework

As previously reported, there was no Risk Management Policy Framework in place to assist the Fund in forecasting, evaluation of risk and identification of procedures for avoiding or minimizing the impact of the risk. This is contrary to Regulation 158(1) of Public Finance Management (County Governments) Regulations, 2015 states that the

Accounting Officer shall ensure that (a) the County Government entity develops risk management strategies which include fraud prevention mechanism and (b) the County Government entity develops a system of risk management and internal controls that builds robust business operations.

In the circumstances, the Fund is exposed to loss and interruption of operations in case of a disaster.

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 continue to sustain its services, disclosing as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to 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 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 controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 July, 2022