

REPORT OF THE AUDITOR-GENERAL ON KIRINYAGA 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

Disclaimer of Opinion

I have audited the accompanying financial statements of Kirinyaga County Executive Car Loan and Mortgage Fund set out on pages 36 to 76, which comprise 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1.0 Inappropriate Presentation of Financial Statements

As reported in the previous year, the financial statements presented for audit review refers to Kirinyaga County Executive Car Loan and Mortgage Fund. However, a review of the documents provided for audit review indicated that the County Executive operates two separate Funds; Kirinyaga County Executive Staff Car Loan Scheme Fund and Kirinyaga County Executive Staff Mortgage Scheme Fund.

In view of the above, the Management combined the financial statements of the two legally separate Funds which is contrary to the requirement of Regulation 15(1)(c) of the Kirinyaga County Public Finance Management (County Executive Car Loan Scheme Fund) Regulations, 2016 and Regulation 19(1)(d) of the Kirinyaga Public Finance Management (County Executive Staff Mortgage Scheme Fund) Regulations, 2016 which requires the officer administering each Fund to prepare separate financial statements and transmit to the Auditor-General within three (3) months after the end of each financial year.

Consequently, the financial statements provided for audit review is not in line with IPSAS template, as the template do not allow combinations of financial statements for separate entities and also is contrary to the law.

2.0 Inaccuracies in the Financial Statements

2.1 Variances with the Comparative Balances

Review of the financial statements revealed that the comparative balances are at variance with prior year audited balances as detailed below;

Particulars	Comparative 2020/2021 Balances (Kshs)	Prior year audited Balances (Kshs)	Variance (Kshs)
Transfers from the County Government	11,300,000	-	11,300,000
Total Revenue	15,591,267	4,291,267	11,300,000
Surplus/(deficit) for the period	13,915,104	2,615,104	11,300,000
Accumulated Surplus	178,759,007	156,811,445	21,947,562
Loan Transfers	-	34,270,000	(34,270,000)
Finance costs	34,270,000	-	34,270,000

In the circumstances, the accuracy of the respective comparative balances for the year ended 30 June, 2021 could not be confirmed.

2.2 Inaccuracies in the Statement of Cash Flows

Review of the statement of cashflows as at 30 June, 2021 revealed the comparative balances of transfers from the County Government, interest and receipts from other operating activities add up to Kshs.35,835,147 instead of Kshs.35,092,307 resulting to unexplained variances of Kshs.742,840. Additionally, the statement of cashflows reflects cash and cash equivalents as at 30 June, 2021 and as at 30 June, 2020 balances of Kshs.35,835,147 and Kshs.2,720,969 respectively which differs with Note 10, cash and cash equivalents balances of Kshs.38,264,706 and Kshs.2,509,239 resulting to unexplained variances of Kshs.2,429,559 and Kshs.211,730 respectively.

In the circumstances, the validity, accuracy and completeness of the respective balances in the statement of cashflows for the year ended 30 June, 2021 could not be confirmed.

2.3 Un-supported Balances

The financial statements provided for audit review indicated that various accounts component amounting to Kshs.334,157,482 had no supporting schedules as summarized below;

S/No	Item	Kshs
1	Fund Administration expenses	1,436,491
2	Finance costs	80,523
3	Long term receivables from exchange transactions	163,744,970
4	Trade and other payables from exchange transactions	1,436,491
5	Revolving Fund	167,459,007
	Total	334,157,482

In the circumstances, the accuracy and completeness of the balances in the financial statements totalling Kshs.334,157,482 could not be confirmed.

2.4 Variances Between the Statements of Financial Position and Changes in Net Assets

Review of the statement of financial position as at 30 June, 2021 reflects a total net assets and liabilities balance of Kshs.202,573,184 while the re-calculated totals amount to Kshs.200,573,184 resulting to unexplained difference of Kshs.2,000,000. In addition, review of the statement of changes in net assets reflects the funds received of Kshs.31,300,000 erroneously reflected under the accumulated surplus. The error adds to total balance of Kshs.243,173,185 which is at variance with the statement of financial position's net balance of Kshs.Kshs.202,573,185 again resulting to un-reconciled difference of Kshs.40,600,000.

In the circumstances, the accuracy of the statement of financial position and statement changes in net assets could not be confirmed.

2.5 Overstated Cash and Cash equivalents

Review of cash and cash equivalents as at 30 June, 2021 reflects a balance of Kshs.38,264,706, an amount not supported by bank reconciliation and which is at variance with the provided bank certificate of Kshs.18,185,189, resulting to unreconciled balance of Kshs.20,079,517.

In the circumstances, the completeness and accuracy of the cash and cash equivalent balance of Kshs.38,264,706 could not be confirmed.

2.6 Property, Plant and Equipment

The statement of financial position and as disclosed in Note 15 to the financial statements reflects nil balance in respect of property, plant and equipment. However, payment records of the Fund indicate purchases of assets of Kshs.194,600 and Kshs.395,800 for the prior year and year ended 30 June, 2021 respectively, totalling to Kshs.590,400, which had not been disclosed in the financial statements.

Consequently, the accuracy and completeness of the reported property, plant and equipment nil balance could not be confirmed.

3.0 Budgetary Control and Performance

Review of the statement of comparison of budget and actual amounts reflects a total expenditure balance of Kshs.2,465,524 against the approved budget of Kshs.31,300,000 resulting to under absorption of Kshs.28,834,476 which is 92%.

This is a clear indication that the funds did not meet their intended objectives and service delivery to the stakeholders were not achieved.

4.0 Unbalanced Budget

The Fund's statement of comparison of budget and actual amounts for the year ended 30 June, 2021 reflects Kshs.35,579,701 and Kshs.2,465,524 in respect to approved revenue and expenditure budgets respectively resulting to a variance of Kshs.33,114, contrary to Regulation 31(c) of the Public Finance Management (County Governments) Regulations, 2015 which states that budgeted revenue and expenditure appropriations shall be balanced.

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

5.0 Lack of an Approved Budget

As reported in the previous year, the Management did not provide its detailed approved budget for audit review contrary to Regulation 43(2) of Public Finance Management

(County Governments) Regulations, 2015 which states that County Government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the County Executive Emergency Fund, or supplementary estimates.

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

6.0 Default on Loan Repayments

The statement of financial position and as disclosed in Note 11 of the financial statements reflects Kshs.163,744,969 in respect to receivables from exchange transactions which includes outstanding mortgage loan of Kshs.13,519,214 accrued from the principal loan balance of Kshs.14,990,000 advanced to ten members of the County Assembly who had so far defaulted on loan repayment.

In view of the above observation, the recoverability of the loan balance totalling Kshs.13,519,214 is doubtful. This is contrary to Regulation 18(1) of the Public Finance Management (Kirinyaga County Executive Staff Mortgage Scheme Fund) Regulations, 2016 which states that where a borrower defaults in the repayment of the loan for a period of three consecutive months, the administrator of the fund shall possess and sell the property by public auction or private treaty

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

7.0 Lack Internal Audit Function and Audit Committee

During the year under review, the Fund did not have an Internal Audit Function or an Audit Committee in place to review and appraise its existing internal controls, with a view to enhancing the Fund's operational efficiency, governance and compliance. This was contrary to Section 73(4) and (5) of Public Finance Management Act, 2012 that requires a public entity to have an Internal audit unit and Audit Committee.

In absence of the Internal audit function and the Audit Committee, the effectiveness of risk management, control and governance assurance is doubtful.

8.0 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 the Public Finance Management (County Governments) Regulations 2015, which 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 control that builds robust business operations.

In the absence of a risk management policy, it has not been possible to confirm whether the internal controls built within the financial and operational systems of the fund were functioning as intended during the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit 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 overall 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 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 Fund's 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

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for, Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion, on lawfulness and effectiveness in use of public resources, and an effectiveness of internal controls, risk management and governance.

I am independent of Kirinyaga 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

20 July, 2022