

REPORT OF THE AUDITOR-GENERAL ON BARINGO COUNTY LAKE BOGORIA COMMUNITY GRANT 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 Baringo County Lake Bogoria Community Grant set out on pages 18 to 58, 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 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 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 Lake Bogoria Grant,2015.

Basis for Adverse Opinion

1. Presentation and Inaccuracies of Financial Statements

1.1 Presentation of Financial Statements

A review of financial statements provided for audit review revealed the following anomalies:

- i) The key entity information does not include the enabling legislations and the non-financial information has not been presented in the recommended format.
- ii) The general expenses balance of Kshs.6,326,502 reflected in the statement of financial performance has not been reflected in Note 7 to the financial statements.
- iii) Progress on follow up of prior year auditors' recommendations has not been disclosed.
- iv) The corporate social responsibility statement report existence of Lake Bogoria National Reserve Management plan and policies on climate change which were not provided for audit verification.
- v) Note 10 in the statement of financial position reflects cash and cash equivalents balance of Kshs.1,927,123 while the actual Note reflect nil balance. However, Note 9 to the financial statements reflects cash and cash equivalents balance.
- vi) The statement of financial position reflects nil revolving grant due to negative revaluation gain which was explained.
- vii) The statement of financial position reflects reserves balance of Kshs.101,106 which include unsupported revaluation gain of Kshs.17,146 as reflected in the statement of changes in net assets.

1.2 Variances in Comparative Balances

The financial statements reflect comparative balances which vary with the certified financial statements for the year ended 30 June, 2020 as shown below:

Item	Financial Statements Comparative Balances 30 June, 2021 (Kshs)	Certified Financial Statement Balances 30 June, 2020 (Kshs)	Variance (Kshs)
Other Income	0	1,338,063	(1,338,063)
Surplus/Deficit for the period	1,951,426	3,289,489	(1,338,063)

1.3 Variances between Financial Statements Balances and Supporting Schedules

The financial statements reflect three component balances which varied with the supporting ledger balances as shown:

Item	Financial Statements Balances 30 June, 2021 (Kshs)	Supporting Schedules Balance 30 June, 2021 (Kshs)	Variance (Kshs)
Transfer from County Government	4,800,000	0	4,800,000
Interest Received	17,146	0	17,146
General Expenses	6,326,502	6,362,490	(35,988)

In the circumstances, the accuracy, presentation and validity of the financial statements for the year ended 30 June, 2021 could not be confirmed.

2. Lack of Trial Balance

The financial statements provided for audit review were not supported by a trial balance as the Management failed to submit the same.

In the circumstances, it was not possible to confirmed the accuracy and validity of the balances in the financial statements for the year under review

3. Unsupported Grant Administration Expenses

The statement of financial performance reflects a balance of Kshs.1,561,460 in respect to grant administration expenses which includes Kshs.1,358,660 in respect to sitting allowances for committee members. However, the expenditure was not supported with invitation letters, committee meeting minutes and signed attendance register. Further, it was not confirmed whether the committee is properly constituted and whether sitting allowance is payable to committee members in the absence of enabling legislations. In addition, payment voucher in support of payments paid vide cheque numbers 1175 and 1181 totalling to Kshs.201,900 included in the Fund administration expenses of Kshs.1,561,460 were not provided for audit verification.

In the circumstances, the validity, accuracy and completeness of Fund administration expenses of Kshs.1,561,460 for the year ended 30 June, 2021 could not be confirmed.

4. Unsupported Other Expenses – Grants

Included in the general expense's expenditure of Kshs.6,326,502 reflected in the statement of financial performance is other expenses-grants balance of Kshs.6,307,590

which includes bursary expenditure of Kshs.3,473,470 awarded to secondary school and college students. However, the criteria for identifying the beneficiaries and confirmation that the beneficiaries received the fund were not provided for audit verification. Further, included in the other expenses-grants balance of Kshs.6,307,590 is an expenditure of Kshs.1,380,990 incurred on community support activities. However, no documentary evidence was provided to confirm the nature of community support activities carried out, criteria for identifying the projects and how the funds disbursed were utilized.

In the circumstances, the validity, accuracy and propriety of general expenses of Kshs.6,307,590 for the year ended 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 Lake Bogoria Community Grant 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

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements. However, the Management has not resolved the issues nor given any explanation 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, because of the significance of the matters discussed in the 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. Unapproved Enabling Legislation

Records provided for audit review indicated that the Grant was established in 2015. However, the enabling legislation for the Fund/Grant was not approved by the Baringo County Assembly.

In the circumstances, the Baringo County Lake Bogoria Community Fund Grant was operating illegally.

2. Lack of Approved Budget

The statement of financial performance for the year ended 30 June, 2021 reflects total revenue of Kshs.4,800,000 and gross expenditure of Kshs.7,887,962. However, approved budget estimates in support of the revenue and expenditure were not prepared and approved which contravenes Regulations 31(a) of the Public Financial Management (County Governments), Regulations 2015 stipulates that all revenue and expenditure shall be entered into the County Government Budget estimates and approved for one year only and 99(2) of the Public Financial Management (County Governments) Regulations, 2015 which requires that the approved budget estimates of expenditure shall form the basis of the financial statements for the financial year.

In the circumstances, the Management was in breach of the law on budgeting for revenue and expenditure and the revenue and expenditure for the year ended 30 June, 2021 was not approved.

3. Late Submission of Financial Statements

The financial statements for the year ended 30 June, 2021 were submitted to the Auditor-General on 4 November, 2021 five months after the end of the financial year contrary to Section 47(1) of the Public Audit Act, 2015.

Under the circumstance, 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, 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 internal controls, risk management and governance were not effective.

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 Grant'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 Grant 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 Grant's financial reporting process, reviewing the effectiveness of how the 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 Grant'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 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 ability of Grant 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 Grant 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 Grant 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 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

18 July, 2022