

REPORT OF THE AUDITOR-GENERAL ON NYANDARUA COUNTY CIVIL SERVANTS' CAR LOAN AND MORTGAGE SCHEME 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

Qualified Opinion

I have audited the accompanying financial statements of Nyandarua County Civil Servants Car Loan and Mortgage Scheme Fund set out on pages 19 to 69, 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, the financial position of the Nyandarua County Civil Servants 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 comply with the Public Finance Management Act, 2012 and Nyandarua County Civil Servants Car Loan and Mortgage Scheme Fund Regulations, 2015.

Basis for Qualified Opinion

1.0. Unsupported Fund Administration Expenses

The statement of financial performance reflects interest income totalling to Kshs.1,163,523 for the year ended 30 June, 2021. However, the computation schedule indicating the principal amounts and how the interest was arrived at was not provided for audit review.

In the circumstances, the accuracy and completeness of interest income of Kshs.1,163,523 could not be confirmed.

2.0. Misstatement of Interest Expense

The statement of financial performance reflects fund administration expenses amount of Kshs.1,119,500 for the year ended 30 June, 2021 in respect of committee allowances. However, the amount was not supported by names of committee members, appointment letters, rate of payout, number of sittings and minutes of meetings.

In addition, the Fund Administrator deducted at source 2.5% of gross interest as administration expenses. However, the amount deducted has not been disclosed in the financial statements as an expense.

In the circumstances, the accuracy and completeness of the fund administration expenditure of Kshs.1,119,500 could not be confirmed.

3.0. Current Portion of Long-Term Receivables from Exchange Transactions

The statement of financial position reflects a Nil balance for current portion of long-term receivables as at 30 June, 2021. However, the balance is not supported by a detailed schedule showing the opening balance, additions for the year or repayments to arrive at the closing Nil balance.

In the circumstances, the accuracy and completeness of the current portion of long-term receivables of Nil balance as at 30 June, 2021 could not be confirmed.

4.0. Long-Term Receivables from Exchange Transactions

The statement of financial position reflects long term receivables from exchange transactions balance of Kshs.263,174,347 as at 30 June, 2021. However, no separation has been made for the current portion to be recovered in the next twelve months as required by IPSAS 1 on presentation of financial statements.

In the circumstances, the accuracy and completeness of long-term receivables from exchange transactions balance of Kshs.263,174,347 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 Nyandarua County Civil Servants 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 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.

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 matters 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

1.0 Non-Adherence to Administration Expenditure Limit

The statement of financial performance for the year ended 30 June, 2021 reflects total revenue balance of Kshs.1,163,523 against Fund's Administration expenses of Kshs.1,119,500 or (96%) of the income. This is contrary to Regulation 197(1)(d) of the Public Finance Management (County Governments) Regulations, 2015 which provides that the administration costs of the Fund shall be set at a maximum of three (3%) percent of the approved budgets of the Fund.

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

2.0 Issuance of Loans to Staff with Overcommitted Salaries

The statement of cash flows for the year ended 30 June, 2021 reflects loan disbursements balance of Kshs.124,630,000 out of which, an amount of Kshs.52,000,000 was issued to sixteen (16) scheme members in respect of car and mortgages loans. However, the loans were issued to members who had overcommitted their salaries contrary to clause C.1(3) of the Human Resource Policies and Procedures Manual for Public Service which states that public officers shall not over-commit their salaries beyond two thirds (2/3) of their basic salaries.

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

3.0 Loan Refinancing or Buy Offs

The statement of cash flows for the year ended 30 June, 2021 reflects loan disbursements balance of Kshs.124,630,000 out of which, an amount of Kshs.37,130,000 was issued to eleven (11) members in respect of loan refinancing or buy offs. However, the Fund Regulations do not have any provisions on loan refinancing or buy offs.

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

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for, Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Non-Maintenance of Manual or Electronic Accounting Records

The Fund Management did not maintain a complete set of accounting records in manual or electronic form during the year, instead excel workbook for cash book was maintained without an audit trail. This was in breach of Regulation 102(1) of the Public Finance Management (County Governments) Regulations, 2015 that require financial records to be maintained on manual or electronic form.

In the circumstances, the Fund's financial reporting and operations internal control system was not functioning as intended during the year under review.

2.0 Lack of a Risk Management and Fraud Policy

The Fund Management did not provide for audit review, a Risk Management and Fraud Policy. This is contrary to Regulation 158(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to develop risk management strategies which include fraud prevention mechanism and internal control that builds robust business operations.

In the absence of a Risk Management and Fraud Policy, it has not been possible to confirm whether the internal controls built within the financial and operational systems were functioning as intended during the year under review.

3.0 Establishment of Multiple Funds

As reported in the previous year, the Loans Management Committees of both Nyandarua County Civil Servants Car Loan and Mortgage Scheme Fund, and that of Nyandarua County Executive Committee Members' Car Loan and Mortgage Scheme Fund held joint meetings at which the business of the two Funds was transacted. This implies that there is no justification in setting up Multiple Funds, as provided by Regulation 197(1)(c) of the Public Finance Management (County Government) Regulations, 2015 which states that a clear justification is required as to why a Fund structure is deemed appropriate for improved service delivery in light of the legislative and policy mandate of the County Government entity.

As a result, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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 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 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

Report of the Auditor-General on Nyandarua County Civil Servants Car Loan and Mortgage Scheme Fund for the year ended 30 June, 2021

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

22 July, 2022