

REPORT OF THE AUDITOR-GENERAL ON TANA RIVER COUNTY STAFF 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

Adverse Opinion

I have audited the accompanying financial statements of Tana River County Staff Car Loan and Mortgage Fund set out on pages 10 to 30, 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 Tana River County Staff Car Loan and Mortgage 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 the Tana River Staff Car Loan and Mortgage Regulations, 2018 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Lack of Trial Balance

The financial statements presented for audit were not accompanied by a trial balance. This is contrary to Regulations 56(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that before embarking on accounting entries and other adjustments to reflect the changes in paragraph (1), it shall be necessary to agree on the actual status of the vote in respect of the following aspects of the affected functions and services based on the ledger balances of a trial balance.

In the circumstances, the validity, accuracy and completeness of the balances presented in the financial statements and notes to the financial statements could not be confirmed.

2. Inaccuracies in the Financial Statements

2.1 Statement of Cash Flows

The statement of financial position reflects a balance of Kshs.54,074,723 in respect of receivables from exchange transactions as disclosed in Note 6 to the financial statements. This is an increase of Kshs.9,745,415 from Kshs.44,329,308 reported as at 30 June, 2020. However, the statement of cash flows reflects an increase of Kshs.2,564,145 resulting into an unexplained variance of Kshs.7,181,270.

In the circumstances, the accuracy and completeness of increased balance of Kshs.2,564,145 on accounts receivables reflected in the statement of cash flows could not be confirmed.

2.2 Receivables from Exchange Transactions

As disclosed in Note 6 to the financial statements, the statement of financial position reflects a balance of Kshs.54,074,723 in respect of receivables from exchange transactions. However, review of the statements of financial position and cash flows revealed that comparative balance of receivables from exchange transactions was Kshs.44,329,308, interests receivables was Kshs.2,564,145, loan disbursements paid out was Kshs.17,190,911 and loan principal repayments was Kshs.9,231,269. The recalculated receivables from exchange transactions balance is Kshs.54,853,095 resulting to an unexplained variance of Kshs.778,372.

In the circumstances, the accuracy and completeness of receivables from exchange transactions of Kshs.54,074,723 could not be confirmed.

3. Inaccuracy in Cash and Cash Equivalents

As disclosed in Note 5 to the financial statements, the statement of financial position reflects a balance of Kshs.27,675,437 in respect of cash and cash equivalents. However, supporting documents including certificate of bank balance, board of survey report, and cheque book counterfoils were not provided for audit review. Further, review of the bank reconciliation statement provided for audit review reflected a balance of Kshs.27,675,437. The statements of financial position, performance and cash flows revealed that comparative balance of cash and cash equivalents was Kshs.37,216,470. Repayment of loans balance was Kshs.9,231,269, interest income was Kshs.1,193,759, payments of loans was Kshs.17,190,911 and expenses was Kshs.1,050,208. The recalculated cash and cash equivalents was Kshs.29,400,379 resulting to an unexplained variance of Kshs.1,724,942.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.27,675,437 could not be confirmed.

4. Unsupported Fund Administrations

As disclosed in Note 3 to the financial statements, the statement of financial position reflects a balance of Kshs.765,200 in respect of fund administration expenses. However, supporting documents including payment vouchers, minutes for expenditure approval, invitation letters and attendance register for meetings was not provided for audit review.

In the circumstances, the accuracy and completeness of the amount of Kshs.765,200 expenditure on fund administration expenses could not be confirmed.

5. Unsupported General Expenses

As disclosed in Note 4 to the financial statements, the statement of financial position reflects a balance of Kshs.285,008 in respect of general expenses on stationeries. However, supporting documents including payment vouchers, stores ledger, S13-counter receipts vouchers and S11-counter issues voucher were not provided for audit review.

In the circumstances, the accuracy and completeness of the amount of Kshs.285,008 expenditure on general expenses could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Tana River County Staff Car Loan and Mortgage 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

1. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final expenditure budget and actual on comparable basis of Kshs.1,193,759 and Kshs.1,050,208 respectively resulting to under absorption of Kshs.143,551 or 12% of the budget. No satisfactory explanation was given for the under utilization of the budgeted funds.

The under absorption affected the planned activities and impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit of the previous year, several issues were raised. The Management has not resolved the issues or provide 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 template and The National Treasury's Circular Ref: AG.4/16/2 Vol.3 (72) dated 30 June, 2021.

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

1.0 Unsecured Loans

The statement of cash flows reflects loan disbursements paid out of Kshs.17,190,911. However, review of the loan documents provided for audit revealed that there was no evidence of co-ownership of properties acquired by the beneficiaries. This is contrary to Regulation 15(1(a)(b) of the Public Finance Management (Tana River County Staff Car Loan and Mortgage Scheme Fund) Regulations, 2018 which states that the Committee shall secure the loans as follows: Where the loan is for a purchase of a car, the Committee shall ensure that the car is jointly registered in the name of the County Government and the Borrower and the log book shall remain in the custody of the Committee. Where the

loan is a mortgage, the Committee shall ensure that a charge is registered on the property with all the legal documentation and disbursement be supervised by the County Attorney.

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

2.0 Late Submission of Financial Statements

The financial statements for the Fund for the year ended 30 June, 2021 were submitted to the Auditor-General on 22 November, 2021 two (2) months after the end of the fiscal year to which the accounts relate. This is contrary to Section 47(1) of the Public Audit Act, 2015 which states that the financial statements required under the Constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

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

3.0 Non-Compliance with Public Sector Accounting Standard Board Requirements

Review of the financial statements for the year ended 30 June, 2021 revealed that key information's were missing including, details of qualifications and experience of the Fund Administration Committee, Management Team, Report on Performance, Fund Administration Committee Chairperson's Report, Management Discussion, and Report of the Fund Administration Committee. Further, page for the report of the Independent Auditor was missing.

In the circumstances, the Management is not compliant with International Public Sector Accountant Standards (IPSAS) Accrual Basis template approved by the Public Sector Accounting Standards Board (PSASB).

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

Internal Controls on Assets

As disclosed in Note 7 to the financial statements, the statement of financial position reflects a balance of Kshs.248,338 in respect of property, plant and equipment. However, the serial number of computers and printers were not included in the asset register. The assets were not coded or tagged for ease of identification and tracking. This is contrary to Regulation 132(1) (b) of the Public Finance Management (County Governments) Regulations, 2015 which states that the Accounting Officer of a county government entity shall take full responsibility and ensure that proper control systems exist for assets and that movement and conditions of assets can be tracked.

In the circumstances, existence of the effective internal controls on assets could not be confirmed.

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 the Fund Administration Committee

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.

The Fund Administration Committee is 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

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'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 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

20 July, 2022

