

# **REPORT OF THE AUDITOR-GENERAL ON KERICHO COUNTY EXECUTIVE STAFF CAR LOAN FUND FOR THE YEAR ENDED 30 JUNE, 2021**

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## **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, gazetted 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 Kericho County Executive Staff Car Loan Scheme Fund set out on pages 19 to 58, which comprise of the statement of financial position as at 30 June, 2021, 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 Kericho County Executive Car Loan 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 do not comply with the Kericho County Executive Staff Car Loan Scheme Fund Regulations, 2016 and the Public Finance Management Act, 2012.

## **Basis for Adverse Opinion**

### **1. Failure of Management's Report to Conform Reporting on Performance Information in Management's Report**

The report of the Fund Administrator does not include information on outputs, outcomes and impacts of the Fund since its establishment. In addition, the report does not identify each of the programs implemented by the Fund, including disclosure on whether their objectives were attained. Further the report does not contain comments on the challenges faced in implementing the strategic objectives of the Fund, and its economic prospects.

In view of these anomalies, the presentation of the financial statements does not comply with the reporting requirements prescribed by the Public Sector Accounting Standards Board (PSASB) on presentation of performance information.

### **2. Lack of Trial Balance**

The trial balance for the Fund as at 30 June, 2022, and from which the balances reflected in the financial statements were supposedly drawn, was not provided for audit. In addition, most of the Notes referenced in the financial statements are redundant as they do not display any balances.

In the circumstances, the validity, accuracy and completeness of the financial statements could not be confirmed.

### **3. Unconfirmed Balances**

The following balances reflected in the financial statements were not supported with sufficient appropriate records:

#### **3.1 Comparative Balances**

The financial statements reflect comparative balances for the previous year that, however, differ with those reflected in the previous year's audited financial statements, as indicated in the attached **appendix**. Management did provide reconciliations for the variances.

In the circumstance, the accuracy of the comparative balances reflected in the financial statements for the year under review could not be confirmed.

#### **3.2 Interest Income**

The statement of financial performance reflects interest income totalling Kshs.338,542. However, the ledger and the income schedule provided for audit reflected income totalling Kshs.375,796 resulting to an unexplained variance of Kshs.37,254. Further, no

analyses were provided in respect of interest received or receivable on loans as at 30 June, 2021.

In addition, no cash book was provided for audit to confirm receipt and banking of the interest income. Further, the bank statement indicated that there were no transactions in the Fund's bank accounts between 1 July, 2020 and 30 June, 2021.

In the circumstances, the accuracy and completeness of the interest income totalling Kshs.338,542 could not be confirmed.

### **3.3 Fund Bank Account**

The statement of financial position reflects cash and cash equivalents totalling Kshs.2,471,628 as 30 June, 2021 this also being the opening balance for the year. As previously stated, review of the cashbook and bank statements indicated that the Fund's bank account was dormant in the year under review. Management did not provide any documentation to explain how loan recoveries and interest earnings were accounted for.

Further, the disclosure in Note 10 does not indicate the bank account number as required by the reporting format prescribed by the PSASB.

In the circumstance, the accuracy of the cash and cash equivalents balance totalling Kshs.2,471,628 could not be confirmed.

### **3.4 Current Portion of Long-Term Receivables from Exchange Transactions**

The statement of financial position reflects current portion of long-term receivables from exchange transactions totalling Kshs.5,871,782. However, the ledger and schedule supporting the balance were not provided for audit. In addition, Note 11 to the financial statements indicates a nil balance for receivables from exchange transactions.

In the circumstances, the accuracy of the current portion of long-term receivables balance totalling Kshs.5,871,782 could not be confirmed.

### **3.5 Long-Term Receivables from Exchange Transactions**

The statement of financial position reflects long term receivables from exchange transactions totalling Kshs.12,816,545. However, Note 11 to the financial statements, to which the balance is referenced, reflects a nil balance. Further, the ledger provided for audit reflected a balance of Kshs.9,115,594 in respect to the account resulting to unexplained variance of Kshs.3,700,951.

In the circumstances, the accuracy of the long-term receivables from exchange transactions totalling Kshs.12,816,545 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kericho County Executive Staff Car Loan 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**

#### **Budget Control and Performance**

The statement of comparison of budget and actual amounts reflects a revenue budget of Kshs.338,542 for the year under review. However, the statement does not reflect actuals on comparable basis as required by the reporting format prescribed by the PSAB. However, the approved (final) budget document for the year was not provided for audit.

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

#### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management had not resolved the issues as at 30 June, 2021. Further, contrary to the reporting requirements set by the PSASB and reaffirmed by The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019, the financial statements for the year under review do not include a report on progress made in resolving the issues.

Therefore, the matters remain unresolved.

## **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**

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 comply, 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 Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion, I confirm that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

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 controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Funds' ability 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 Fund's 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**

The audit objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatements, 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 based on 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls.
- 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 controls 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**

**19 September, 2022**

**Appendix:**

**Unexplained Variances in Comparative Balances**

<b>Account</b>	<b>Comparative Balances 2020/2021 Financial Statements (Kshs.)</b>	<b>Audited Balances 2019/2020 (Kshs.)</b>
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<b>Statement of Financial Performance</b>			
1.	Interest Income	338,542	0
2.	Surplus Figure	338,542	2,471,628
<b>Statement of Financial Position: -</b>			
3.	Cash and Cash Equivalents	6,130,669	2,471,628
4.	Long Term Receivables from Exchange Transactions	12,208,916	0
5.	Total Assets	20,958,313	2,471,628
7.	Revolving Fund	17,761,272	0
8.	Accumulated Surplus	338,542	0
9.	Total Assets and Liabilities	18,339,585	2,471,628
<b>Statement of Changes in Net Assets</b>			
10.	Balance as at 1 July, 2019		
11.	Revolving Fund	20,380,000	0
13.	Accumulated Surplus	244,871	2,471,628
14.	Surplus for The Period	338,592	0
15.	Balance as at 30 June, 2020		
16.	Revolving Fund	20,300,000	0
17.	Accumulated Surplus	583,413	2,471,628