

# **REPORT OF THE AUDITOR-GENERAL ON WEST POKOT COUNTY CAR LOAN AND MORTGAGE SCHEME 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, 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 West Pokot County Car Loan and Mortgage Fund set out on pages 19 to 61, which comprise of the statement of financial position as at 30 June, 2021, statement of financial performance, statement of cash flows, statement of changes in net assets, 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of West Pokot County 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 the International Public Sector Accounting Standards (Accrual Basis) and comply with the West Pokot County Car Loan and Mortgage (Members) Scheme Fund Regulations, 2016 and the Public Finance Management Act, 2012.

## **Basis for Qualified Opinion**

### **1. Unsupported Training Expenses**

The statement of financial performance reflects general expenses balance of Kshs.1,471,020 which, as disclosed in Note 7 to the financial statements, includes other costs - committee expenses amount of Kshs.1,460,200. This latter expenditure includes an amount of Kshs.731,700 in respect of payments of per diem and allowances to Fund Committee Members and support staff for benchmarking and training on formulation of Fund Policy and Regulation. However, the amount was withdrawn in cash through undated and unauthorized payment voucher, the travel was not authorized, work/bus tickets, quotations and invoices for the conference services were not provided.

In the circumstances, the accuracy and validity of the training expenditure of Kshs.731,700 could not be confirmed.

### **2. Unsupported Loans**

The statement of financial position and the corresponding Note 11 to the financial statements reflects long term receivables from exchange transactions balance of Kshs.122,391,789 relating to loans to Members. However, review of documents revealed the following unsatisfactory matters:

- (i) A Member applied for a loan of Kshs.1,500,000 on 10 December, 2018 for development of a house. However, the loan statement dated 24 August, 2021 revealed that the loan advanced on 30 December, 2018 was Kshs.5,000,000 and an additional amount of Kshs.500,000 on 30 August, 2019. This resulted in an unsupported loan advanced of Kshs.4,000,000.
- (ii) Another Member applied for a loan of Kshs.20,000,000 on 18 December, 2018 for purchase of land, repayable for a period of 60 months. The application form was not supported by a copy of official search of the title to the property and a certified copy of the sale agreement. Further, the Member has never made any repayments of the loan as per the loan statements provided.
- (iii) Further, a Member was advanced a loan of Kshs.15,000,000. However, the loan application form was not provided and only a statement has been attached showing the loan advanced and the balances. The repayment schedule submitted for audit review shows the opening balance for the loan as Kshs.12,821,954 and

the Member did not make any repayments within the financial year as per the repayment schedule provided.

- (iv) The balance includes loans of Kshs.3,500,000 advanced to two (2) Members towards development of residential properties. However, Management did not provide copies of the designs of the proposed residential property duly approved by the relevant County Government department and Bills of Quantities in respect of the proposed development, renovation or repair.

In the circumstances, the accuracy and completeness the loans advanced of Kshs.122,391,789 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the West Pokot County 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.

### **Other Matter**

### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given satisfactory explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

## **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. Non-compliance with the Public Sector Accounting Standards Board Requirements**

Review of the annual report and financial statements submitted reflects the name of the Fund as 'West Pokot County Car Loan and Mortgage Fund'. However, the header for the rest of the pages omits the word 'County'. Further, various sections of the financial statements including table of contents, statement of changes in net assets, statement of comparison of budget and actual amounts, summary of significant accounting policies and notes to the financial statements have no pages. This is contrary to Public Sector Accounting Standards Board (PSASB) reporting template.

In the circumstances, the annual report and the financial statements as presented do not comply with the requirements of the Public Sector Accounting Standards Board revised reporting template.

### **2. Non-Performing Loans**

The statement of financial position reflects long term receivables from exchange transactions balance of Kshs.122,391,789. Note 11 However, a review of the loan repayment schedule provided for audit review revealed that loan balances of Kshs.46,607,075 have not been repaid.

There was no evidence of measures taken by the Fund Management to recover the unpaid principal amount and interest due as required by Regulation 20 of the West Pokot County Car Loan and Mortgage Scheme Fund Regulations, 2016.

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. Lack of Oversight on the Fund**

The audits reports of the Fund for the years ended 30 June, 2017, 2018, 2019 and 2020 were concluded and audit certificates issued to the Fund Management by the Auditor-General. However, the reports are yet to be discussed by the audit committee and there was no evidence the financial statements have been submitted to the County Assembly contrary to Section 149(1) of the Public Finance Management Act, 2012.

In the circumstances, effectiveness of the internal control and governance of the Fund could not be confirmed.

### **2. Weak Internal controls on Loans**

The following internal control weaknesses on loans issued were noted:

- (i) Absence of loan agreements between members and the fund

Audit scrutiny of personal member's loan files revealed that the committee did not present loan agreements to be signed between the fund and the members taking car and or mortgage loans stipulating the conditions of the loans, the repayment period and the responsibilities of each party and in particular, repayment of the loans and the consequences of defaulting loans.

- (ii) Loan application forms

There was no approval letter or note by the committee to show/indicate that they agreed with the terms of the loan that the members applied for.

- (iii) There was no documentation to show/indicate when the Human Resource Department approved the date when deductions from the member' payslip were to commence.

In the circumstances, effectiveness of the internal control and governance of the Fund 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 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 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 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 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 overall 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 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**

**27 July, 2022**