REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

BOMET COUNTY ASSEMBLEY
RECEIVED
23 NOV 2023
P. O. Box 590-20400
BOMET

BOMET COUNTY ASSEMBLY
REGISTRY OFFICE
23 NOV 2023
P. O. Box 590 - 20400, BOMET

LETTER OF UNDERSTANDING

13 October 2023

SR/BOMET/CA/CAR&MORTGAGEFUND/2022/2023

Mr. Isaac Kitur,
Fund Administrator,
Bomet County Assembly Car Loan and Mortgage Fund,
P. O. Box 345 – 20400,
BOMET – KENYA.

Dear Sir,

RE: AUDIT OF THE BOMET COUNTY ASSEMBLY CAR LOAN AND MORTGAGE SCHEME FUND PERFORMED BY THE AUDITOR-GENERAL FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023

The financial statements of the Bomet County Assembly Car Loan and Mortgage Scheme Fund for the year ended 30 June 2023 are subject to audit by the Auditor-General in accordance with the provisions of Article 229(4) of the Constitution and Section 35 of the Public Audit Act, 2015. Further, Article 229(6) requires the Auditor-General to perform a compliance audit to confirm whether public money has been applied lawfully and in an effective way. In addition, Section 7(1(a)) of the Public Audit Act, 2015 requires the Auditor-General to give an assurance on the effectiveness of internal controls, risk management and overall governance in Bomet County Assembly Car Loan and Mortgage Scheme Fund.

The purpose of this letter is to outline:

- The terms of the audit assignment, the scope, the nature and limitations of the annual audit; and
- The respective responsibilities of the Auditor-General and the management of the Bomet County Assembly Car Loan and Mortgage Scheme Fund in the annual audit.

The term(s) of the audit assignment are set out below.

Objective(s) of the audit

The objective(s) of the annual audit are:

- To express an independent opinion on the financial statements prepared in accordance with the accrual basis of accounting method under the International Public Sector Accounting Standards (IPSAS) and Public Finance Management Act 2012. These financial statements comprise the statement of financial performance, statement of financial position, 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.

- To conclude on whether Bomet County Assembly Car Loan and Mortgage Scheme Fund complied with laws and regulations in respect to the following subject matter(s):

No	Subject Matter	Justification for selection of Subject Matter	Criteria
1.	Regularity of Imprest Management	Previous years reports indicate overdue imprest, non-recovery of overdue imprests and non-compliance with internal controls.	• Regulation 91(2) of the PFM (County Governments) Regulations, 2015. • Regulation 93(1) of the PFM (County Governments) Regulations, 2015. • Regulation 93(4) of the PFM (County Governments) Regulations, 2015. • Regulation 93 (6) & (7) of the PFM (County Governments) Regulations, 2015.
2.	Effectiveness in implementation of the Recommendations of Legislative Oversight Committees.	• Legislative expectation for public entities to implement recommendations from oversight committees.	• Section 31(1) (a) of the Public Audit Act, 2015.
3.	Compliance with Payment of Statutory Dues.	• The 2023 Budget Policy Statement indicates that County Governments owe money to various pension funds (LAPTRUST, LAPFUND and County Pension Fund). • Some Counties are not reflecting the liabilities as pending bills	• Regulation 21(2) of the PFM (County Governments) Regulations 2015. • Section 53A (1) & (3) of the Retirement Benefits Act, Revised Edition 2022 (1997). • Section 53B (1)(a)(i) of the Retirement Benefits Act, Revised Edition 2022 (1997).

			• Section 27(1) of the National Social Security Fund Act, 2013. • Section 18(1) and (2) of the National Social Security Fund Act, 2013. • Section 37(1) of the Income Tax Act.

- To conclude on the effectiveness of internal controls, risk management and overall governance in Bomet County Assembly Car Loan and Mortgage Scheme Fund.

Responsibilities of the Auditor-General

Our audit will be conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require that we comply with ethical requirements, plan and perform the audit to obtain reasonable assurance:

- about whether the financial statements are free from material misstatements.
- whether the activities, financial information or transactions of Bomet County Assembly Car Loan and Mortgage Scheme Fund are in accordance with the applicable authorities.
- That the internal control, governance and risk management systems of Bomet County Assembly Car Loan and Mortgage Scheme Fund have been operating effectively throughout the period under review.

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, instances of non-compliance and weaknesses in internal control, governance and risk management when they exist. Misstatements, instances of non-compliance and weaknesses in internal control, governance and risk management can arise from fraud or error. The risk of not detecting a material misstatement, instances of non-compliance or weaknesses internal control, governance and risk management 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.

In making our risk assessments, we consider internal control relevant to the Fund's preparation and fair presentation of the financial statements, compliance with laws and regulations, governance and risk management in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's internal control. Any material deficiencies identified will be communicated to you in writing and will be included in a separate section of the audit report.

We shall also review financial transactions, financial information and activities of Bomet County Assembly Car Loan and Mortgage Scheme Fund for compliance with various laws and regulations.

The review of compliance will also include reviewing whether public money was applied in an economical manner, without public money being wasted and that the financial transactions or activities were undertaken in an effective and efficient way. We will also report on any instances of abuse identified during the course of the audit.

The compliance audit will be integrated with our other audit procedures. The results of this work will be included in a separate section of our audit report.

Responsibilities of management and those charged with governance

Our audit will be conducted on the basis that management has responsibility:

- To prepare and fairly present financial statements in accordance with International Public Sector Accounting Standards (Accrual basis) and in the manner required by the Public Sector Accounting Standards Board.
- To submit the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.
- To establish and maintain an effective system of internal control necessary to:
  - Enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error; and
  - Provide reasonable assurance that adopted policies and prescribed procedures are adhered to and errors and irregularities, including fraud and illegal acts are prevented or detected.
  - Ensure proper recording and safeguarding of the Fund's assets and resources.

- To develop
  - Risk management strategies, which include fraud prevention mechanism; and
  - A system of risk management and internal control that builds robust business operations.
- To ensure resources of the entity are used in a way that is effective, efficient, economical and transparent.
- To ensure compliance with laws and regulations that govern the County Assembly Fund.
- To provide us with unrestricted access to:
  - All information which is relevant to the preparation of the financial statements such as records, books, returns, documentation and other matters electronic or otherwise;
  - Any information on any fraud, losses, or any violation of laws and regulations including explanations for the actions taken to prevent a similar problem in future;
  - Any additional information that we may request from management for the purpose of the audit;
  - Any property or premises used or held by the Bomet County Assembly Car Loan and Mortgage Scheme Fund;
  - Persons within the Bomet County Assembly Car Loan and Mortgage Scheme Fund from whom we determine it is necessary to obtain audit evidence; and
  - All internal audit reports which have been deliberated and adopted by the audit committee

Those charged with governance are responsible for overseeing the Bomet County Assembly Car Loan and Mortgage Scheme Fund's financial reporting process, governance mechanisms, and risk management system and strategies. They are also responsible for ensuring that the Bomet County Assembly Car Loan and Mortgage Scheme Fund designs, implements, and maintains an appropriate internal control system with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable legislation and other authorities.

Other Information accompanying financial statements

Management may wish to publish the financial statements including, the audit report and other information in other documents, such as in an annual report. However, management remains responsible for the other information that accompanies the financial statements.

The Auditor General's opinion on the financial statements will not cover the other information and we will not express any form of assurance conclusion thereon unless laws and regulations require so. Our responsibility is to read though the other information accompanying the financial statements that was obtained prior to the date of the audit report and consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we will have performed on the other information that we will obtain prior to the date of the audit report, we conclude there is a material misstatement of this other information, and will report this fact.

Communication with management and those charged with governance

During the course of the audit, we will be in continual communication with management and those charged in governance. Section 31(1)(b) of the Public Audit Act, 2015 requires us and the accounting officer to hold an inception meeting at the beginning of the audit to deliberate on the scope of the audit. At the end of the audit, we are also required by the Act to hold an exit meeting with the accounting officer to discuss our audit findings and recommendations. These meetings are, therefore, mandatory to both parties and we have included the target dates in this letter.

We will regularly inform the management about material findings obtained in the course of the audit so that they can take relevant measures. Our communication may be verbal or in writing.

As part of our audit process, we will request from management and, where appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

The key deliverables and target dates that should be met by both parties are in **Appendix 1.**

Independence

ISSAI 30 on Code of Ethics requires the audit team to maintain independence from the Bomet County Assembly Car Loan and Mortgage Scheme Fund and communicate with you regarding all relationships between the Bomet County Assembly Car Loan and Mortgage Scheme Fund and us that, in our professional judgment, may reasonably be thought to bear on our independence. To provide further assurance, our quality management system requires the Auditor General to ensure safeguards are applied to eliminate identified threats to independence, or reduce them to an acceptable level to ensure that we complied with relevant ethical requirements regarding independence.

At this time, we are not aware of any relationships between Bomet County Assembly Car Loan and Mortgage Scheme Fund and us and/or any of the audit staff that, in our professional judgment, may reasonably be thought to bear on our independence.

Documents

To assist me in the audit, we request the documents or statements in **Appendix 2**.

Agreement to terms

This letter will remain effective until it is replaced. We shall be grateful if you could confirm your agreement to the terms of this letter by signing and returning the enclosed copy, or let me know the terms of our assignment are not in accordance with your understanding.

We look forward to full cooperation from your staff during our audit.

Yours faithfully,

LORNA OCHIENG,

FOR: AUDITOR-GENERAL

Acknowledgement of terms of the audit assignment
The terms of this audit assignment are acknowledged and agreed by **Fund Administrator** on behalf of the Bomet County Assembly Car Loan and Mortgage Scheme Fund. .... Signed ISAAC KITUR, CLERK .... Name and Position Date 23.11.23

Appendix 1: Key Deliverables and Dates

	Activity	Responsibility	Target date
	Continuous/ Final Audit		
1.	Submit financial statements and supporting files (Trial balance and ledger) to auditors.	Management of the Bomet County Assembly Car Loan and Mortgage Scheme Fund	30 September 2023
2.	Opening meeting between the audit team and the management of the Fund Management to discuss the overall audit strategy.	Audit team and management of Bomet County Assembly Car Loan and Mortgage Scheme Fund at relevant levels	16 October 2023
3.	Request for information and records from management.	Principal Auditor	23 October 2023
4.	Submit information and records requested for audit.	Management of the Bomet County Assembly Car Loan and Mortgage Scheme Fund	24 October 2023
5.	Perform the continuous and final audit	Audit team	Between 23 and 25 October 2023
6.	Issue audit queries to the Fund Management	Principal Auditor	Continuously as the audit progresses
7.	Submit written response to audit queries to audit team.	Fund Administrator	2 Days after receipt of audit queries
8.	Exit Meeting between the audit team and the management of the Fund to discuss unresolved issues raised in the audit queries	Audit team and management of the Bomet County Assembly Car Loan and Mortgage Scheme Fund at relevant levels	01 November 2023
9.	Issue management letter	Director of Audit	06 November 2023
10.	Submit written response to management letter to OAG	Fund Administrator	10 November 2023
11.	Issue Draft Audit Report	Deputy Auditor General	13 November 2023
12.	Issue management representation letter and response to draft report.	Fund Administrator	15 November 2023
13.	Issue audit opinion to the County Assembly Fund.	Auditor-General	31 December 2023

Appendix 2: List of Documents and Other Requirements

1. Policy Documents

- The Fund's enabling legislation and approved regulations;
- List of the gazette Fund's Management Committee;
- The strategic plan and Operational plan of the Fund which is applicable for the 2022/2023 financial year
- Approved budget for the year ended 30 June 2023
- Supplementary budgets if any showing the reallocation
- Risk management policy
- ICT Policy
- Disaster Recovery plan
- Monthly and Quarterly expenditure returns submitted to Controller of Budget for the peric 2022/2023 (hard and soft copy)

Loan Disbursements

- List of beneficiaries for the period up to 30 June 2023;
- Repayment schedule for the period 1 July 2022 to 30 June 2023;
- Loan amortization schedule;
- Minutes of Car Loan Fund management committee meetings
- Copies of collaterals – vehicle log books and property titles;
- Copies of agreements between the Fund and the beneficiaries;

Expenditure

- Authorities to Incur Expenditure (AIEs)
- Payment vouchers (selected samples)
- User requisitions
- Monthly expenditure reports
- Imprest registers

Cash and Cash Equivalents

- List of bank accounts held by the Bomet County Assembly Car Loan and Mortgage Scheme Fund
- Cash Books for all bank accounts operated by the County Fund
- Monthly Bank Reconciliation Statements for all the Accounts
- Bank Statements

- Bank balances confirmation certificates as at 30 June 2023 for all bank accounts
- Cheque Counterfoils
- Board of survey reports as at 30th June 2023
- Authorized signatories (for various levels of authorization) and their specimen signatures;
- Details of Bank overdrafts, Loan agreements and repayment schedules

Internal Audit

- The Charter of Internal Audit
- Annual Internal Audit Plan 2022/2023
- Internal Audit reports for 2022/2023
- Audit committee minutes for the 2022/2023 financial year.
- The Terms of Reference for the Audit Committee for the County applicable for the 2022/2023 financial year.
- Letters of appointment for audit committee members

Any other document required during the audit will be communicated as the audit progresses.

Note: This list may not be exhaustive therefore additional information may be requested for during the audit.