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OFFICE OF THE AUDITOR-GENERAL

BOMET C. ASSEMBLY CAR LOAN & MORTGAGE/2019/2020 — 10 November 2020

The Fund Administrator
Bomet County Assembly Car Loan and
Mortgage Scheme Fund
P.O Box 590
<u>BOMET</u>

BOMET COUNTY ASSEMBLY
RECEIVED
10 NOV 2020
P. O. BOX ... 20400
BOMET

AUDIT REPORT ON BOMET COUNTY ASSEMBLY CAR LOAN ANDMORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE 2020

Attached is a copy of the Draft Report which the Auditor General intends to issue on the financial audit performed on the financial statements for Bomet County Assembly Car Loan and Mortgage Scheme Fund for the year ended 30 June 2020.

Let us have your comments by 13 November 2020. If no comments are received within this period, it will be assumed that you agree with the facts as stated and the Report will be processed as it is for issue.

Note: In case the financial statements are amended, eight (8) original fully signed copies of the amended financial statements should accompany the response (13 November 2020)

Sincerely,

Stephen Karani Karanu
Director of Audit
<u>For: Auditor General</u>

DRAFT

REPORT OF THE AUDITOR-GENERAL ON BOMET COUNTY ASSEMBLY CAR LOAN AND MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Bomet County Assembly Car Loan and Mortgage Scheme Fund set out on pages 20 to 60, which comprise the statement of financial position as at 30 June 2020, 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, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Bomet County Assembly Car Loan and Mortgage Scheme Fund as at 30 June 2020, 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Errors in the Annual Reports and Financial Statements

The annual reports and financial statements prepared and presented for audit had the following anomalies;

1.1. The cover page has the word "amended" inserted before financial statements and the word financial year is not separated to read financial year;

1.2. Page 2 item 12.1 the statement of financial performance for the year ended 30th June 20 is incomplete.

1.3. Page 2 Item 12.3 the statement of changes in net assets as is not separated to read assets as.

1.4. Page 2 Item 12.5 the word amounts for is not separated to read amounts for.

1.5. Page 3 the principal activities of the fund is to provide car loans to staff and members of the county assembly is not correct as the fund provides mortgage funds.

1.6. Page 11 the amount of Kshs.48,831,000,000,000 is not supported. The outstanding amount of Kshs.207,075,101 is not correct as the difference between Kshs.272,360,040 and Kshs.61,962,149 is Kshs.210,397,891 and not Kshs.207,075,101.

1.7. Page 12,15 and 28 the word FY is not in full narration.

1.8. Page 13 the word Bomet County Assembly Car Loan Scheme Fund is not correct as the fund is Bomet County Assembly Car Loan and Mortgage Scheme Fund.

1.9. Page 14 the cashflow collections from county government be county assembly instead.

1.10. Page 17 the principal activity of the fund is to provide financing to the members of staff to purchase car loans for personal use is not correct as the fund provides mortgage funds.

1.11. Page 18, 20, 22, 23 and 25 the date of approval of the financial statements is not indicated.

1.12. Pages 20,21,23,24 and 26 have header which dark and are not readable.

1.13. Page 20 and 21 the word performance for and position as respectively are not separated. There are no totals for total liabilities and total assets.

1.14. Page 23 the word balance as at 30 June 2019 and assets as is not separated while page 24 has the word cashflow for instead of cash flows for.

1.15. Page 25 has the cash and cash equivalent as at 1 July 2018 instead of 1 July 2019.The word cash and cash equivalent as at 30 June 2020 is not separated.

1.16. Page 26 has the word amounts for instead of amounts for. The actual on comparable basis of Kshs.40,000,000 is not reflected to confirm 100% utilization difference. Total expenditure percentage is not reflected.

1.17. Page 26 the difference of Kshs.168,780-Kshs.210,748= Kshs(-210,748) and not Kshs.41,967.67.

1.18. Pages 28,29,30,31,32,33,35,36,37,41,43 uses the word entity instead of fund. The word ABC county assembly is used instead of Bomet County Assembly.

1.19. The table indicating the carrying amount of financial assets recorded in the financial statements representing the funds maximum exposure to credit risk without taking into account of the value of any collateral is blank.

1.20. Page 41 has a blank foreign risk tabulation that represents the carrying amount of the funds foreign currency denominated monetary assets and liabilities at the end of the reporting period.

1.21. Page 43 has a blank foreign currency sensitivity analysis table with percentages whose meaning is not clear.

1.22. Page 44 the gearing ratio of 20% is not correct as recasting reveals 18%. Page 47 has the word statement not correctly spelt.

1.23. Page 49 has no detailed analysis of cash and cash equivalents.

1.24. Note 15 has property, plant and equipment blank schedule that has net book values comparatives of 30 June 2018 and 30 June 2020 instead of 30 June 2019 and 30 June 2020.

1.25. Pages 45 to 58 has blank notes to the financial statements for which their inclusion is not clear or relevant.

1.26. Under note 13 on page 59, the management should indicate that the issues in the progress on follow up of Auditor recommendation disclosed does not relate to 2018/19 financial year, but 2017/18 since the final audit report of 2018/19 has not been received officially.

Consequently, the annual reports and the financial statements for the year ended 30 June 2020 as prepared and presented are not compliant with International Financial Reporting Standards on presentation and disclosure as prescribed by the Public Sector Accounting Standards Board.

2.0 Inaccuracies in the Statement of Comparison of Budget and Actual Amounts

The following inaccuracies were observed in the statement of comparison of budget and actual amounts for the period ended 30 June 2020. The total income utilization difference of Kshs.168,780 is not correct as recasting reflects Kshs.40,168,780 while total surplus of Kshs.41,968 has been re-casted to reflect Kshs.39,958,032 as tabulated below: -

Item	Reported Budget Figure Kshs	Actual on Comparable Basis Kshs	Variance Kshs
Transfers from County Government	40,000,000	-	40,000,000
Total Income	49,000,000	8,831,220	40,168,780
Surplus for the Period	43,440,000	3,481,968	39,958,032
Total	**132,440,000**	**12,313,188**	**120,126,812**

In addition, the report of the fund administrator reports Kshs 48,831,000,000,000 was received in the year while the statement of changes in net assets reflects Kshs 40,000,000 resulting to a difference of Kshs 48,830,960,000,000.

In the circumstance, the accuracy and completeness of the statement of comparison of budget and actual amounts for the period ended 30 June 2020 could not be confirmed.

3.0 Trial Balance

The trial balance for the year ended 30 June 2020 as presented for audit had balances that could not be verified and confirmed in the statement of financial performance and statement of financial position. The trial balance has omitted long-term receivables balance from exchange transactions of Kshs.157,363,222 and current portion of long-term receivables from exchange transactions of Kshs.49,711,879. The revolving fund balance of Kshs.241,000,000 has also been omitted.

In the circumstance, the accuracy and completeness of the trial balance as prepared and presented for the year ended 30 June 2020 could not be confirmed.

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

1.0 Budget and Budgetary Control

1.1 Income Budget

Bomet County Assembly Car Loan and Mortgage Scheme Fund financial statements for the year ended 30 June 2020 had a revenue budget of Kshs.49,000,000 against an actual of Kshs.8,831,220 or (18%).

Item	Budget Kshs	Actual Kshs	Excess or Shortfall Kshs	%
Transfers from County Government	40,000,000	0	40,000,000	100
Interest Income	9,000,000	8,831,220	168,780	0.018
Total Income	**49,000,000**	**8,831,220**	**40,168,780**	**82**

The under collection may be as a result of under budgeting.

1.2 Expenditure Budget

The expenditure budget was Kshs.5,560,000 against an actual of Kshs.5,349,252 resulting to an under expenditure of Kshs.210,748. Management needs to ensure that the budget making process is realistic and set achievable targets.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, 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 Budget Process

During the year under review, the Fund did not have a budget indicating the revenue estimates that were to cover the expenditure as stipulated in section 31 (1)(e) of the Public Finance Management (County Governments) Regulations, 2015 which states that total budget revenue shall cover total budget expenditure and therefore (i) except as provided by legislation, there shall be no use of specific revenue to finance specific expenditure; and (ii) appropriation shall be for a specific purpose or a specific related to sustainability of services and using the going concern basis of accounting unless Management is aware of intention to liquidate 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 financial reporting process, reviewing the effectiveness of how the Fund 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 going concern 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.

Nancy Gathungu
AUDITOR-GENERAL
Nairobi
Date:____________