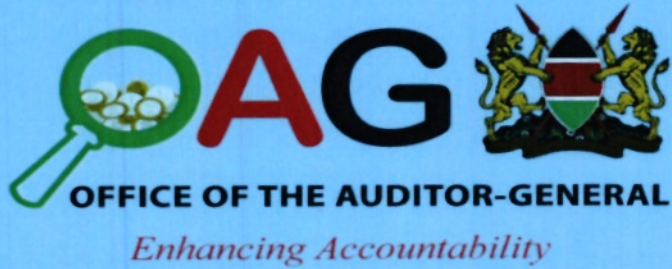


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REPORT

OF

THE AUDITOR-GENERAL

ON

**HOMA BAY COUNTY ASSEMBLY CAR
AND MORTGAGE FUND**

**FOR THE YEAR ENDED
30 JUNE, 2019**

Tabled by: Senate Minority Whip

Date: 14th Nov. 2021

Committee:

Chair at the table: Hon. A. Mutajika





**HOMA BAY COUNTY ASSEMBLY
CAR AND MORTGAGE FUND**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2019**

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

HOMA BAY COUNTY ASSEMBLY CAR AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

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HOMA BAY COUNTY ASSEMBLY CAR AND MORTGAGE LOAN FUND
Reports and Financial Statements
For the year ended June 30, 2019

1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The Homa Bay County Assembly Car and Mortgage loan scheme is a revolving fund established pursuant to the Salaries and Remuneration Commission (SRC) circular number SRC/TS/WH/3/14 of 14th February 2014. Section 167 of the Public Finance Management (PFM) Act 2012 mandates the administrator of public funds with the preparation of annual financial statements.

For proper management of the fund and as advised by the SRC in the circular under the reference, Homa Bay County Assembly adopted the PFM regulations 2014 to guide in the operationalization of the fund.

The SRC in its circular reference SRC/ADM/CIR/1/13 Vol.III (128) dated 17th December 2014 provided guidelines for access of car loan and mortgage benefits by state and public officers. Arising therefrom, the Homa Bay County Assembly passed a Car Loan and Mortgage Regulations in 2014.

The fund is wholly owned by the County Assembly of Homa Bay and is domiciled in Kenya.

b) Principal Activities

The principal activity/mission/ mandate of the fund is to provide mortgage and car loans to MCAs and staff.

Vision

“A modern County Assembly that offers excellence in service delivery and leadership for the people of Homa Bay County”

Mission

To ensure that the Assembly exercises its legislative, oversight and representation functions effectively within the framework of the Kenyan Constitution and working with all those committed to building productive and prosperous Homa Bay County.

Strategic Objectives

- To develop and sustain the Homa Bay County assembly institutional capacity to better discharge its constitutional mandate
- To improve the legislative process at Homa Bay County assembly
- To improve the capacity of Homa Bay County assembly and to provide effective oversight to county government
- To fully develop the representation and outreach work of the members of county assembly

Fund Administration Committee

Ref	Name	Position
1	Hon Philemon Okombo	Chairperson
2	Hon. Evelyn Otieno	Vice Chairperson

c) Key Management

Ref	Name	Position
1	Odhiambo Daniel Kaudo	Fund Administrator (Assembly Clerk)
2	Jacinter Adede	Fund Accountant

HOMA BAY COUNTY ASSEMBLY CAR AND MORTGAGE FUND
Reports and Financial Statements
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d) Fund Bankers

1. Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

2. Equity Bank
Equity Centre, Upper Hill
P.O. Box 1234 - 00100
Nairobi, Kenya

e) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

f) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

HOMA BAY COUNTY ASSEMBLY CAR AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

2. FUND ADMINISTRATOR'S REPORT

It is my pleasure to present, on behalf of the Fund Administration Committee, the County Assembly Mortgage and Car loan fund financial statements for the year ended 30th June 2019. The financial statements present the financial performance of the fund over the past year.

Sustainability

The fund and its stakeholders are increasingly emphasizing on the need to ensure sustainability for both its investments and its resource mobilization and financing capabilities with an objective of ensuring that the fund's going concern is secured.

The fund has conducted a basic assessment of available options for feasible financing tools that would assure the fund of its long term sustainability. The fund has reviewed its current resource mobilization strategies and proposed feasible sustainability financing options.

Review of performance

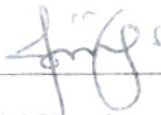
Income

The fund earned interest amounting to KShs. 6,101,000 for the period. Projects implementation during the period were carried out as per the plan with the coordinated efforts by all stakeholders. The performance was also attributed to an opening cash balance of Kshs. 5,265,671 as at the beginning the year.

Expenditures

The total expenditures during the period amounted to KShs. 2,271,000.

Signed: _____



Odhiambo Daniel Kaudo
Fund Administrator



HOMA BAY COUNTY ASSEMBLY CAR AND MORTGAGE FUND
Reports and Financial Statements
For the year ended June 30, 2019

3. Financial Performance

a) Revenue

In the year ended 30th June 2019, the fund had projected interest income of KShs 6,101,000. Out of the projected revenue, the fund was able to realise actual interest income, representing 98.7% performance.

In the table below, we present an analysis of revenue performance during the year.

Revenue classification	Revenue budget (KShs)	Actual (KShs)	Realisation (%)
Revenue	KShs	KShs	
Transfers from County Govt.	20,000,000	0.00	-
Interest income	6,101,000	6,101,000	100%
Fines, penalties and other levies	-	-	-
Other income	-	-	-
Total income	26,101,000	6,101,000	23.4%

b) Loans

During the financial year 2018/2019, the fund disbursed a total of Kshs.1,350,000 being a Mortgage balance to a member. The total loan beneficiaries to date is 118.

Cash flows

In the FY 2018/2019, we had a few liquidity disruptions. This was as a result of late disbursement from the national treasury hence affecting issuance of new loans, deductions and remission of the interest and principal. The cash and cash equivalents was Kshs. 87,902,229.15 as at 30th June 2019, being an increase from Kshs 5,265,671.15 as at 30th June 2018.

c) Conclusion

FY 2018/2019 was a good year in general. Good progress was made and the momentum has been created to enable Homa Bay County Assembly car loan fund continue on a trajectory into prosperity. The loan repayment during the year was near 100% realized. We have identified gaps and areas to improve on in the subsequent years.



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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON HOMA BAY COUNTY ASSEMBLY CAR AND MORTGAGE FUND FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Homa Bay County Assembly Car and Mortgage Fund set out on pages 6 to 22, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows, 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.

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 as at 30 June, 2019, 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 the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Long Term Portion of Borrowings

The statement of financial position reflects Kshs.190,326,458 on long-term portion of borrowings as at 30 June, 2019 which relates to borrowing by the beneficiaries repayable through monthly instalments. However, the Management has not presented separately, the expected repayment in the year under review as current portion of long-term borrowings, contrary to the International Public Sector Accounting Standards (IPSAS) 1 on presentation of financial statements, which requires the debtors' portion due within the next one year be classified as current assets.

In the circumstances, the accuracy and completeness of the long-term portion of borrowings balance of Kshs.190,326,458 could be confirmed.

2. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.87,902,229 as at 30 June, 2019 held in two bank accounts. However, the certificate of balances for one bank account was not provided for audit. Further, the cash books reflects a balance of Kshs.82,638,268 resulting to an unexplained variance of Kshs.5,263,961.15.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.87,902,229 could not be confirmed.

3. Unaccounted for Cash Withdrawals.

Documents provided for audit revealed that the Management made cash withdrawals amounting to Kshs.31,156,371 from a Fund bank account. However, the cash withdrawals were not supported with relevant expenditure documents contrary to Regulation 83(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Management to ensure efficient and effective banking and cash management practices.

Consequently, the regularity and validity of the cash withdrawals amounting to Kshs.31,156,371 could not be ascertained. In addition, Management breached the law.

4. Unsupported Interest Income

The statement of financial performance reflects interest income of Kshs.6,101,000. However, the amount was not supported with relevant documents.

Consequently, the completeness and accuracy of Kshs.6,101,000 on the interest income could not be confirmed.

5. Repayment of Borrowings

The statement of cash flows for the year ended 30 June, 2019 reflects Kshs.94,381,161 in respect of repayment of borrowings. However, the amount was not supported with relevant documents.

Consequently, the completeness and accuracy of the repayment of borrowings balance of Kshs.94,381,161 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Homa Bay County Assembly Car and Mortgage Fund 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.

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. Failure to Deduct Fringe Benefit Tax on Loans

Documents provided for audit revealed that the Fund Management did not deduct and remit any Fringe Benefit Tax (FBT) to the Kenya Revenue Authority (KRA) contrary to Section 12B(1) of the Income Tax Act, Cap 470

In the circumstances, the Management breached the law

2. Failure to Register Charge on Securities

Documents provided for audit revealed that 56 beneficiaries comprising 19 members of staff and 37 Members of the County Assembly (MCA) were advanced loans amounting to Kshs.1,350,000 during the year. However, the Fund had not jointly registered the log- books or registered a charge on the properties financed through the loans contrary to Regulation 9(2) of the Public Finance Management Homa Bay County Assembly (Car Loans Scheme Fund) Regulations, 2015 and Regulation 15(1) of the Public Finance Management Homa Bay County Assembly (Mortgage Scheme Fund) Regulations, 2015.

In the circumstances, the Management breached 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

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 governance.

In preparing the financial statements, Management is responsible for assessing the ability of the Fund's 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 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 the entity 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.