

REPORT

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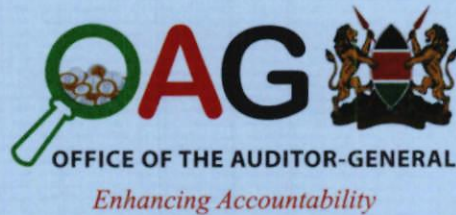
ON

**BARINGO COUNTY EXECUTIVE MEMBERS
MORTGAGE SCHEME FUND**

**FOR THE YEAR ENDED
30 JUNE, 2017**

PAPERS LAID	
DATE	10/02/2022
TABLED BY	SENATE MAJORITY LEADER
COMMITTEE	
CLERK AT THE TABLE	GETRUIS

REPUBLIC OF KENYA



Phone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

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

REPORT OF THE AUDITOR-GENERAL ON BARINGO COUNTY EXECUTIVE MEMBERS MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE, 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Baringo County Executive Members Mortgage Scheme Fund set out on pages 1 to 3, which comprise of the statement of financial position as at 30 June, 2017, statement of receipts and payments and the statement of cash flows for the year then ended in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements of the Baringo County Executive Members Mortgage Scheme Fund. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Late Submission of Financial Statements for Audit

The Management failed to submit the financial statements by 30 September, 2017 for audit as required by the Public Audit Act, 2015, Section 47 which states that the financial statements required under the Constitution, the Public Finance Management Act, 2012 and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate. Instead, the management submitted the financial statements on 20 January, 2020, a delay of two (2) year four (4) months after the end of the fiscal year to which the accounts relate.

The Management was therefore in breach of the Law.

2. Presentation of the Financial Statements

The financial statements for the year ended 30 June, 2017 provided for audit review contained the following anomalies:

- i. The statements were prepared in accordance with International Public Sector Accounting Standards (IPSAS) cash basis of accounting instead of accrual basis,
- ii. The financial statements lacked the following information:

- a) Key entity information by management;
 - b) The board of trustees (or any other corporate governance body for the Fund);
 - c) Management team;
 - d) Board/ fund chairperson's report;
 - e) Report of the fund administrator;
 - f) Corporate governance statement;
 - g) Management discussion and analysis;
 - h) Corporate social responsibility statement/sustainability report;
 - i) Report of the trustees;
 - j) Statement of management responsibilities;
 - k) Blank page for the insertion of the Independent report of the auditor;
 - l) Statement of changes in net assets;
 - m) Statement of comparison of budget and actual amounts;
 - n) Summary of significant accounting policies;
 - o) Notes to the financial statements.
- iii. Page 1 refers to the financial statements as "Baringo County – Executive Mortgage Scheme" instead of "Baringo County Executive Mortgage Scheme Fund" as per Section 3 of the Public Finance Management (Baringo County Executive Mortgage Scheme Fund) Regulations, 2015.
- iv. Pages 1, 2 and 3 did not have comparative figures and the name, signature and date thereof of the fund accountant.

Consequently, the financial statements presented for audit for the year ended 30 June, 2017 did not comply with International Public Sector Accounting Standard No.1 as prescribed by the Public Sector Accounting Standards Board.

3. Inaccuracies in the Financial Statements

The financial statements prepared and presented for the year ended 30 June, 2017 contained the following errors: -

- 3.1 The statement of receipts and payments reflects balance brought forward, loan recovery and funds disbursements of Kshs.5,650,000, Kshs.901,839 and Kshs.23,150,000 respectively. However, the disclosure is not in line with the requirement of the International Public Sector Accounting Standards No.1 which requires opening balances, loan recovery and fund disbursements to be reflected in the statement of financial position and not in the statement of financial performance;
- 3.2 The statement of financial position reflects a fund balance carried forward of Kshs.400,729 which was not supported;
- 3.3 The statement of financial position reflects a nil balance surplus adjustment for the previous period which did not reconcile with a surplus of Kshs.5,650,000 reported in the 2015/2016 financial statements;

- 3.4 The statement of financial position did not disclose receivables (long-term and short-term) from exchange transactions, payables and provisions, revolving fund, and accumulated surplus;

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June, 2017 as prepared and presented could not be confirmed.

4. Unsupported Balances

The financial statements for the year ended 30 June, 2017 contained figures that differed with the support schedules provided for audit resulting to a variance of Kshs.3,999,550 which was not explained or reconciled as detailed below;

Component	Financial Statements (Kshs.)	Schedules (Kshs.)	Variance (Kshs.)
Loan Recovery	901,839	901,389	450
Transfer from County Treasury	17,000,000	19,000,000	(2,000,000)
Funds uses/expenditure/disbursements	23,150,000	25,150,000	(2,000,000)
Total	41,051,839	45,051,389	(3,999,550)

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June, 2017 could not be confirmed.

5. Loan Recovery

The statement of receipts and payments for the year ended 30 June, 2017 reflects a loan recovery balance of Kshs.901,839. However, the provided schedule lacked details of the principal amount, repayments and outstanding balance. This is contrary to Regulation 7(4)(c) of the Public Finance Management (Baringo County Executive Mortgage Scheme Fund) Regulations, 2015 that requires the officer administering the Fund to cause to be kept proper books of accounts and other books and records in relation to the Fund and for all Mortgages financed from the Fund.

Consequently, the accuracy and completeness of the loan recovery of Kshs.901,839 for the year ended 30 June, 2017 could not be confirmed.

6. Cash and Cash Equivalents

The statement of financial position as at 30 June, 2017 reflects cash and cash equivalent of Kshs.400,729 which was extracted from an excel cashbook. Further, the statement of cashflow indicates a figure of Kshs.400,729 whose re-calculation resulted to an amount of Kshs.400,179 resulting to an unreconciled variance of Kshs.550.

In the circumstances, the accuracy and completeness of the cash and cash equivalent balance of Kshs.400,729 as at 30 June, 2017 could not be confirmed.

7. Non-Adherence to Executive Mortgage Scheme Fund Regulations

The statement of receipts and payments reflects funds uses/expenditure/disbursements of Kshs.23,150,000 which relates to mortgage disbursements. However, a review of the

mortgage fund records revealed non-compliance with the Public Finance Management (Baringo County Executive Mortgage Scheme Fund) Regulations, 2015 as detailed below:-

- i. No evidence of assessments of the financial status of the applicant and his/her capacity to repay the mortgage applied for pursuant to Regulation 9(2) which states that the officer administering the Fund shall satisfy himself of the applicants financial status and capacity to repay the Mortgage applied for and where so satisfied shall forward the application to the Committee for consideration;
- ii. No evidence that legal transactions in respect of property being purchased was conducted by county legal officers pursuant to Regulation 10(4) which states that all legal transactions in respect of the property being purchased shall be conducted by the County Legal Officer;
- iii. Evidence that the borrower takes out and maintain a mortgage protection policy and a fire policy with an insurance company on purchased property under the scheme pursuant to Regulations 17(1) were not provided for audit review;
- iv. Evidence that quarterly and annual reports and returns from beneficiaries were discussed by management committee in line with Regulation 22(3) was not provided;
- v. Evidence that security was charged on property acquired through mortgage in order to protect the interest of the fund in an event of default in repayments pursuant to Regulation 20(1)(b) was not provided;
- vi. Documented criteria for mortgage processing and award pursuant to Regulation 21, were not provided for audit review;

In the circumstances, the Fund is in breach of the law.

8. Lack of Approved Budget

The statement of receipts and payments reflects total revenue of Kshs.23,551,389 and payments of Kshs.23,150,660. However, the approved budget estimates were not provided for audit, contrary to Section 31(a) of the Public Financial Management (County Governments) Regulations, 2015 which requires that all revenue and expenditure shall be entered into the county government budget estimates and approved for one year only and Section 99(2) of the Public Financial Management (County Governments) Regulations, 2015 which requires that the approved budget estimates of expenditure shall form the basis of the financial statements for the financial year.

In the circumstances, the Fund is in breach of the law.

9. Lack of Risk Management Policy

It was noted that in the year under review, the Fund did not have a risk management strategy contrary to Section 158(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the accounting officer to develop risk management strategies, which include fraud prevention mechanism and internal control that builds robust business operations.

In the circumstances, risk management and development of strategies and controls may not have been implemented as required.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion, section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management systems and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion, section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit 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 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 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 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

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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.

However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of the Baringo County Executive Members 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

12 January, 2022

BARINGO COUNTY GOVERNMENT.

Email:

chard.koech60@gmail.com



AFC Building,
P.O. BOX 053-30400,
KABARNET.

Department of Finance, Treasury & Economic Planning

BARINGO COUNTY – EXECUTIVE MORGAGE SCHEME

STATEMENT OF RECEIPTS AND PAYMENTS

FOR FY 2016/2017 (1ST JULY, 2016 – 30TH JUNE, 2017)

RECEIPTS	KSHS	KSHS
Balance B/F	5,650,000.00	
Loans Recovery	901,839.00	
Transfers from Baringo County Treasury	<u>17,000,000.00</u>	
Total Revenue		<u>23,551,389.00</u>
PAYMENTS		
Funds Uses/Expenditure/Disbursements	23,150,000.00	
Administration costs	<u>660.00</u>	
Total Payments		<u>(23,150,660.00)</u>
SURPLUS		<u>400,729.00</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 10/07/2017 and signed by:

A handwritten signature in black ink, appearing to be "H. Koech", written over a horizontal line.

Fund Administrator
Executive Mortgage Loan Fund



STATEMENT OF CASH FLOW

Operating Activities:	Kshs.	Kshs.
Receipts for operating income (bal b/d)	5,650,000.00	
Transfers from Baringo county government	17,000,000.00	
Loan Recovery	<u>901,839.00</u>	
		<u>23,551,389.00</u>
Less:		
Funds Uses/Expenditure/Disbursements	23,150,000.00	
Administration costs	<u>660.00</u>	<u>(23,150,660.00)</u>
Net Cash Inflow From Operating Activities		<u>400,729.00</u>
 Investing Activities:		
Proceeds from sale of Assets	0.00	
Acquisition of Asset	<u>0.00</u>	
Net Cash Inflow From Investing Activities		<u>0.00</u>
 Financing Activities:		
Proceeds from Domestic borrowing	0.00	
Proceeds from Foreign Borrowing	0.00	
Loan repayments	<u>0.00</u>	
Net Cash Inflow From Financing Activities		<u>0.00</u>
 Changes in Cash and cash Equivalent		
Cash at end of the period		<u>400,729.00</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 10/07/2017 and signed by:



Fund Administrator
Executive Mortgage Loan Fund

STATEMENT OF FINANCIAL POSITON

FINANCIAL ASSETS	KSHS
Cash and cash equivalent	0.00
Bank balance	<u>400,729.00</u>
Total Financial Assets	<u>400,729.00</u>
Less:	
FINANCIAL LIABILITIES	
Accounts Payable	<u>0.00</u>
Total Financial Liabilities	<u>0.00</u>
NET FINANCIAL ASSETS	<u>400,729.00</u>
 REPRESENTED BY:	
Fund Balance c/Fwd	400,729.00
Add: Surplus Adjustment for previous period	<u>0.00</u>
Net Financial Position	<u>400,729.00</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 10/07/2017 and signed by:



Fund Administrator
Executive Mortgage Loan Fund