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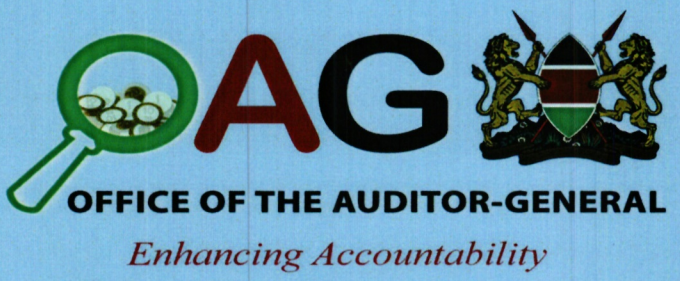

REPORT

OF

THE AUDITOR-GENERAL

ON

KERICHO COUNTY EXECUTIVE STAFF MORTGAGE SCHEME FUND

FOR THE YEAR ENDED 30 JUNE, 2018

COUNTY GOVERNMENT OF KERICHO

FINANCIAL STATEMENTS FOR

KERICHO COUNTY EXECUTIVE STAFF MORTGAGE FUND

FOR THE PERIOD ENDED
30.6.2018

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

III. FOREWORD

This is the County Government of Kericho Quarterly Financial Report for the 3rd Quarter in the 2017-2018 financial period ending 30th Jun, 2018 for the Staff Mortgage Fund. This report was prepared and presented as required by Section 168 of the *Public Financial Management (PFM) Act 2012*. The report expounds from national equitable share alongside the expenditure incurred by the county government in Emergency service provision.

The Constitution of Kenya Articles 2010 gives a constitutional right and requirement for the public to participate in budgetary process and prudent financial management of the public resources. According to the County Government Act, 2012 each county shall prepare a county integrated plan which shall be the basis for all budgeting and spending of public funds. The acts clearly states that "A county government shall plan for the county and no public funds shall be appropriated outside a planning framework developed by the County Executive Committee and approved by the County Assembly" The county integrated plan shall focus on economic, physical, social, environmental and spatial planning.

The guiding regulations are the Kericho County Executive Staff Mortgage regulations of 2015 in line with the Salary and Remunerations Commission. The Fund Administrator is CEC Finance and Economic Planning and its primary purpose is to advance loans for mortgage mortgages.

It is expected that this report will enable the county government to adequately monitor the challenges faced in budget implementation and use the lessons learnt in future economic forecasts. In addition, the report expounds on the actionable steps to be taken by all stakeholders in the subsequent reporting periods.

II. CHALLENGES, WAY FORWARD AND CONCLUSION

Key challenges

The following key challenges were noted during the financial year.

a) Improper sale agreements between the seller and purchaser

b) Lack of training on management of similar funds.

Way Forward

The County Treasury considers the following suggestions as a way forward for challenges faced to speed up advancing process

a) Provider proper guidelines to the concern parties

b) Proper and timely training before implementation of disbursements.

c) Consultative process on how similar funds are being managed through benchmarking.

Conclusion

The operationalization of the mortgage fund will be greatly determined by access to the fund deposits. In addition, delay in funding from the national government continues to impact negatively on mortgage funds which may eventually lead to fund not being utilised. The execution of the budget and the service delivery for citizens of the County Government will be achieved through collaboration of all the stakeholders in the national and county levels to bring out the potential of the County Government of Kericho.

Patrick Mutai

County Executive Committee Member- Finance and Economic Planning and Head of County Treasury

Section 166 of the PFM Act requires that an Accounting Officer for a County Government entity prepares a report for each quarter of the financial year in respect of the entity. The County Executive Committee (CEC) member for finance being the head of the County Treasury is responsible for the preparation and presentation of the County Government of Kericho financial statements, which give a true and fair view of the state of affairs of the County Government of Kericho for and as at the end of the quarter ended on 30.6.2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the County Government of Kericho; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the County Government; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The CEC member for finance accepts responsibility for the County Government of Kericho financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public-Sector Accounting Standards (IPSAS). The CEC member for finance is of the opinion that this report gives a true and fair view of the state of the County Government's transactions during the quarter ended 30.6.2018, and of its financial position as at that date. The CEC member for finance further confirms the completeness of the accounting records maintained for the County Government which have been relied upon in the preparation of this report as well as the adequacy of the systems of internal financial control.

The CEC member for finance confirms that the County Government has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the County Government's funds received during the quarter under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the CEC member for finance confirms that the County Government's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public-Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The County Government's financial statements were approved and signed by the CEC member for finance on 30.6.2018.

County Executive Committee Member – Finance and Economic Planning

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KERICHO COUNTY EXECUTIVE STAFF MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE, 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Kericho County Executive Staff Mortgage Scheme Fund set out on pages 6 to 8, which comprise the statement of financial assets as at 30 June, 2018, and statement of receipts and payments 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 do not express an opinion on the accompanying financial statements. 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. Presentation of Financial Statements

Review of the financial statements for the year ended 30 June, 2018 revealed the following unsatisfactory matters:

- The statement of changes in net assets;
- Statement of cash flows;
- Statement of comparison of budget and actual amounts;
- A summary of significant accounting policies;
- Statement of performance against County's predetermined objectives
- The Management committee
- Key entity information and management
- Report of the Fund Administrator
- Board chairperson's Report
- Corporate governance statement
- Corporate social responsibility statement/sustainability reporting
- Report of the trustees
- Statement of Management's responsibilities and
- Progress on follow up of prior year audit recommendations.

Consequently, the prescribed report and the financial statements for the year ended 30 June, 2018 are not in the format.

2. Non-Recovery of Mortgage Loan

The statement of receipts and payments for the year ended 30 June, 2018 reflects that no payments were done for mortgage loan during the year. However, Note 3 to the financial statements reflects loans totaling to Kshs.28,238,000 were issued in the year.

Under the circumstances, the accuracy and completeness of the staff mortgage loan balance of Kshs.28,238,000 as at 30 June, 2018 could not be confirmed.

3. Inaccuracies in Cash and Cash Equivalents

The statement of financial assets reflects bank balance of Kshs.54,940,620 as at 30 June, 2018 which differed with bank statement balance of Kshs.4,879,620 resulting to unexplained and unreconciled variance of Kshs.50,061,000. Further, cashbooks, bank reconciliation statements or bank confirmation certificate were not provided for audit verification. In addition, the bank statement as at 30 June, 2018 reflected a bank balance of with cash and cash equivalents balance of Kshs.54,940,620. The resultant difference has not been reconciled or explained.

In the circumstances, the accuracy, and completeness of the cash and cash equivalents balance of Kshs.54,940,620 as at 30 June, 2018 could not be confirmed.

4. Failure to Establish Loans Management Committee

A review of the administration of the Fund revealed that there is no Loans Committee. This is contrary to Regulation 6(4) the Public Finance Management (County Executive Staff Mortgage Scheme Fund) Regulations, 2016 which states that the Loans Committee shall manage and supervise the Fund, process loans application, liaise with the mortgage company, and supervise the day-today running of the Fund.

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

5. Unsupported Transfer of Funds to Car Loan Fund

The statement of receipts and payments for the year ended 30 June, 2018 reflects transfer of funds to Car Loan Fund account totaling to Kshs.28,238,000. This is contrary to Section 116 of the Public Finance Management Act, 2012 which stipulates that money held in the account should only be spent for the purpose for which the fund was established. There was no basis for the transfer to car loan instead of Staff Mortgage Fund.

Consequently, the Management was in breach of the law.

6. Late Submission of Financial Statements

The financial statements of the Fund for financial year 2017/2018 were submitted on 18 November, 2019, after the statutory date of 30 September, 2018. This is contrary to Section 167(1) of the Public Finance Management Act, 2012 which requires an Accounting Officer to prepare and submit for audit annual financial statements for each

financial year within three months after the end of the financial year. No explanation was given for the anomaly.

In the circumstance, the Management is in breach of the law.

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 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.

In preparing the financial statements, Management is responsible for assessing the Funds ability to continue 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 manner.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the 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 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.

I am independent of the Kericho County Executive Staff 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

19 October, 2021

KERICHO COUNTY EXECUTIVE STAFF MORTGAGE

I. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2017-18	2016-17
		Kshs	Kshs
RECEIPTS			
Transfers	1	33,181,820.08	0
Unspent funds	2	49,999,000.00	0
TOTAL RECEIPTS		**83,180,820.08**	**49,999,000.00**
PAYMENTS			-
Mortgage Land loan		0.00	-
Transfer to Car Loan	3	28,238,000.00	-
Other Payments (Bank Charges)	4	2,200.00	
			-
TOTAL PAYMENTS		**28,240,200.00**	**49,999,000.00**
SURPLUS/DEFICIT		**54,940,620.08**	**49,999,000.00**

I. STATEMENT OF FINANCIAL ASSETS

	Note	2017-18	2016-17
FINANCIAL ASSETS		**Kshs**	**Kshs**
Cash and Cash Equivalents			
Bank Balances	5	54,940,620.08	49,999,000.00
TOTAL FINANCIAL ASSETS		**54,940,620.08**	**49,999,000.00**
FINANCIAL LIABILITIES			
Accounts Payables – Deposits and retentions			
NET FINANCIAL ASSETS			
REPRESENTED BY			
Fund balance b/fwd		**54,940,620.08**	**49,999,000.00**
Surplus/Deficit for the quarter			