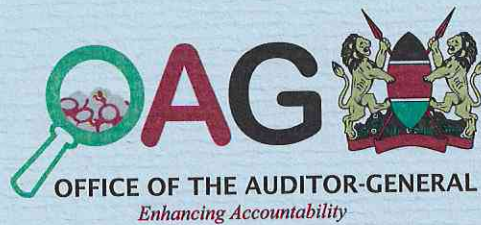


# REPUBLIC OF KENYA

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**HEADQUARTERS**  
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Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

OAG/SRRO/2022-2023-2-02-0036-19BC (3)

Isaac K. Kitur,  
The Clerk,  
Bomet County Assembly,  
P. O. Box 590 – 20400,  
**BOMET – KENYA.**

DDF  
urgent  
20/12/23  
15 December, 2023  
(seen)

## REPORT OF THE AUDITOR-GENERAL ON BOMET COUNTY ASSEMBLY CAR AND MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE, 2023

Your response dated 23 November, 2023 to the management letter Ref:OAG/SRRO/2022-2023-2-02-0036-19BC dated 10 November,2023 in respect of the financial year ended 30 June 2022 refers.

The additional information and evidence provided in the response has been examined and issues that have not been satisfactorily explained and (or) supported are now included in the Draft Audit Report.

Kindly submit your written response within **three** days of receipt of this Report for further examination. If no comments are received within this period, it will be taken that you agree with the facts as stated and the Report will be processed as it is for issue.

**NB:** In case the financial statements have been revised, kindly submit **ten (10)** duly signed original sets of the same with the response.

Yours Sincerely,

Lorna Ochieng  
Deputy Director Audit (In-Charge)  
**For: AUDITOR-GENERAL**





DRAFT

**REPORT OF THE AUDITOR-GENERAL ON BOMET COUNTY ASSEMBLY CAR  
LOAN AND MORTGAGE SCHEME FUND OR THE YEAR ENDED 30 JUNE, 2023**

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PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for intended purpose; and,
- C. Report on the Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

## 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 1 to 39, which comprise the statement of financial position as at 30 June 2023, the statement of financial performance, 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 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 effect of the matters 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, 2023 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 and Bomet County Assembly Car Loan and Mortgage Scheme Fund Regulations, 2021.

**Basis for Qualified Opinion****1. Inaccuracy in the Financial Statements****1.1 Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.36,334,476 as disclosed in Note 12 to the financial statements which includes three(3) cashbook bank balances in commercial banks which were at variance with the respective totaling to cash book balances of Kshs.36,412,246 resulting to a variance of Kshs.77,770 as detailed below.

<b>Account Description</b>	<b>Cashbook Balance (Kshs.)</b>	<b>Financial Statements Balance (Kshs.)</b>	<b>Variance (Kshs.)</b>
Car Loan Account	129,401	128,801	600
Mortgage Account	82,887	82,167	720
Fund Account	36,199,958	36,123,508	76,450
	<b>36,412,246</b>	<b>36,334,476</b>	<b>77,770</b>

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.36,334,476 could not be confirmed.

### **1.2 Loan Principal Repayments**

The statement of cash flows reflects an amount of Kshs.45,593,433 in respect of proceeds from loan principal repayments. However, review of the supporting schedules provided for audit review revealed an amount of Kshs.42,828,723 resulting to unexplained and unreconciled variance of Kshs.2,764,710.

In the circumstances, the accuracy and completeness of an amount of Kshs.45,593,433 in respect of proceeds from loan principal repayments could not be confirmed.

### **2. Unsupported Use of Goods and Services**

As disclosed in Note 7 to the financial statements, the statement of financial performance reflects use of goods and services of an amount of Kshs.7,758,323 which Includes an amount of Kshs.6,642,791 in respect of fringe benefit tax on the loans issued. However, supporting schedule reflecting loans disbursed, fringe benefit tax rate applied, remittance schedule and acknowledgement receipts from Kenya Revenue Authority were not provided for audit for audit review.

In the circumstances, the accuracy and completeness of an amount of Kshs.7,758,323 which Includes an amount of Kshs.6,642,791 in respect of fringe benefit tax on the loans issued could not be confirmed.

### **3. Unsupported Loan Disbursements Paid Out**

The statement cash flows statement reflects an amount of Kshs.172,658,198 in respect of loan disbursements paid out. However, supporting documents including bank statements detailing beneficiaries of the loan disbursements was not provided for audit review.

In the circumstances, the accuracy and completeness balance of 172,658,198 in respect of loan disbursements paid out could not be confirmed.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Bomet County Assembly Car Loan and Mortgage Scheme Fund Management in accordance with ISSAI 130 on the 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 judgement, 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. Budgetary Control and Performance**

The statement of budget and actual amounts reflects final total income budget and actual on comparable basis of Kshs.152,000,000 and Kshs.150,818,508 respectively resulting to an under-funding of Kshs.1,181,492 or 22% of the budget. Similarly, the statement reflects final budget expenditure and actual on comparable basis of Kshs.141,940,000 and Kshs.143,060,185 resulting to over-absorption of Kshs.1,120,185 or 1% of the budget.

The under-funding affected the planned activities and may have impacted negatively on service delivery to the public and over-absorption and spending above the approved budget results to unauthorized expenditure and burden of pending bills

#### **2. Unresolved Prior Year Matters**

As disclosed under the progress on follow up of auditors recommendation section of the financial statements, the Management indicated that five (5) prior year audit issues were resolved with two other issues not resolved. However Management did not provide reports and invitations from the oversight committee's detailing the deliberations and recommendations of the committees.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution and based on the audit procedures performed, except for the matter(s) described in the Basis for Conclusion, 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. Presentation of the Financial Statements

The financial statements for the year under review did not comply with reporting format as prescribed and published by the Public Sector Accounting Standards Board as follows:

- i. Preamble information and details of the Fund Committee Management did not include date of birth and the section of the statement performance relates to the year 20/201 and entity referred as County Assembly.
- ii. The preamble information was presented without customizing to provide information relevant to the fund and the page numbers were not in proper sequence.
- iii. Page Xi on cash flow briefs referred to the Controller of Budget as the approver of the fund budget.
- iv. The significant accounting policies information referred to the fund as entity instead of the Fund name.
- v. The statement of budget is presented for the period and not for the year ended.

In the circumstances, the financial statements were not presented in accordance with the applicable financial framework as prescribed by the Public Sector Accounting Standards Board (PSASB).

### 2. Failure to Register Charges on Securities

Review of log books securing the car loans revealed that the Fund had not taken into custody or registered charges on log books for six (6) motor vehicles financed at a cost of Kshs.23,900,000 in respect of security of the outstanding loans. This is contrary to Regulation 24(2) of the Bomet County Assembly Car Loan and Mortgage Fund Regulations, 2022 which requires the Fund to have a charge registered on the car or property financed through a loan granted and to have its name entered in all documents of ownership.

Further, the motor vehicles acquired through loans granted to members did not have comprehensive insurance policies contrary to Section 22 (1) of the Fund Regulations 2022 which requires the borrower to comprehensively insure any vehicle purchased through the Scheme. This exposes the Fund to possible loss of public funds in case of any unforeseen occurrence.

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

### **3. Lack of an Approved Budget**

The statement of financial performance reflects final revenue and expenditure amounts of Kshs.152,000,000 and Kshs.141,940,000 respectively. However, the management did not provide approved budget contrary to Regulations 39 (1) of the Public Finance Management (County Governments) Act, 2015 which states that each Accounting Officer shall within the guidelines of the supplementary budget circular and in conformity with budget guidelines issued by the County Executive Committee Member, prepare revised budget estimates in the format to be issued by the Cabinet Secretary.

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

### **4. Unbalanced Budget**

The statement of comparison of budget and actual amounts for the year ended 30 June, 2023 reflects a final income budget of Kshs.152,000,000 and an expenditure final budget of Kshs.141,940,000 resulting in a variance of Kshs.10,060,000. The budget imbalance is contrary to the provisions of Section 31(c) of the Public Finance Management (County Government) Regulations, 2015 which states that 'budget revenue and expenditure appropriation shall be balanced.

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

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (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 comply, 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.



The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) 2315 and 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, 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 the Management and those Charged with Governance**

The 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 controls as the 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 controls, risk management and governance.

In preparing the financial statements, the Management is responsible for assessing the Fund's ability to sustain its services, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management is aware of the intention to terminate the Fund or to cease its operations.

The 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 comply 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 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**

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 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 applicable 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 Funds to cease 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.

**FCPA Nancy Gathungu, CBS**

**AUDITOR-GENERAL**

**Nairobi**

**Date:**

