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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**BARINGO COUNTY SMALL AND MEDIUM  
ENTERPRISE FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2016**

# REPUBLIC OF KENYA

Telephone: +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 SMALL AND MEDIUM ENTERPRISE FUND FOR THE YEAR ENDED 30 JUNE, 2016**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Disclaimer of Opinion**

I have audited the accompanying financial statements of Baringo County Small and Medium Enterprise Fund set out on pages 1 to 3, which comprise of the statement of financial position as at 30 June, 2016, and the statement of receipts and payments and 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. 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. Use of Inappropriate Financial Reporting Framework**

The financial statements presented for audit were prepared in accordance with International Public Sector Accounting Standards (IPSAS) cash basis of accounting instead of accrual basis.

As a result, the financial statements fails to enhance completeness and disclosures do not comply with the requirements of International Public Sector Accounting Standards No.1 on presentation.

##### **2. Incomplete Financial Statements**

The financial statements for the year ended 30 June, 2016 prepared and presented for audit did not include the following statements and 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 insertion of the report of the independent auditor;
- l) Statement of changes in net assets;
- m) Statement of comparison of budget and actual amounts;
- n) Summary of significant accounting policies and ;
- o) Notes to the financial statements.

Consequently, the set of financial statements for the year ended 30 June, 2016 were incomplete and did not comply with International Public Sector Accounting Standard No.1 as prescribed by the Public Sector Accounting Standards Board.

## 2. Inaccuracies in the Financial Statements

The financial statements for the year ended 30 June, 2016 contained the following inaccuracies:

- a) The statement of receipts and payments reflects a balance brought forward of Kshs.1,435,383. However, this disclosure is not in line with the requirement of International Public Sector Accounting Standards No.1 on presentation of the financial statements which requires opening balances to be reflected in the statement of financial position and not in the statement of receipts and payments.
- b) The statement of financial position reflects fund balance carried forward of Kshs.3,214,685 which was not supported by schedules.

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June, 2016 could not be confirmed.

## 3. Variances Between the Financial Statements and Schedules

A comparison between the statement of receipts and payments balances and the supporting schedules revealed unexplained variances as shown below:

<b>Component</b>	<b>Financial Statements Amounts Kshs.</b>	<b>Balance as per Schedules Kshs.</b>	<b>Variance Kshs.</b>
Loan Repayments	6,740,547	6,402,750	337,797
Funds uses/expenditure/disbursements	7,367,200	6,810,000	557,200

Consequently, the accuracy and completeness of Fund's financial statements for the year ended 30 June, 2016 could not be confirmed.

#### **4. Unsupported Loan Repayments**

The statement of receipts and payments for the year ended 30 June, 2016 reflects an amount of Kshs.6,740,547 in respect of loan repayments. However, the balance was not supported with loan agreements, and details of the loans issued, principal and interest repayments and the outstanding balance. This is contrary Regulation 9(2)(e) of the Public Finance Management (Baringo County Small and Medium Enterprises Fund) Regulations, 2014 that requires officer administering the Fund to prepare and maintain records and books of the Fund.

In the absence of relevant information, documentation and records for audit verification, it has not been possible to confirm the accuracy and completeness of the loan repayment of Kshs.6,740,547 reflected in the financial statements.

#### **5. Unconfirmed Cash and Cash Equivalents Balance**

The statement of financial position reflects cash and cash equivalents balance of Kshs.3,214,685. However, the balance was not supported with cashbook, bank reconciliation statements and certificate of bank balance. This is contrary to Regulation 9(2)(e) of the Public Finance Management (Baringo County Small and Medium Enterprises Fund) Regulations, 2014 that requires officer administering the Fund to prepare and maintain records and books of the Fund.

Consequently, the accuracy and completeness of the reported cash and bank balance of Kshs.3,214,685 as at 30 June, 2016 could not be confirmed.

#### **6. Lack of Approved Budget**

The statement of receipts and payments reflects revenue of Kshs.10,588,930 and payments of Kshs.7,374,245. However, approved budget estimates were not provided for audit review. This is contrary to Section 31 (a) of the Public Finance Management (County Governments) Regulations, 2015 which requires that all revenue and expenditure shall be entered annually into the County Government budget estimates.

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

#### **7. Non-Compliance with the Fund Regulations**

The statement of receipts and payments reflects payments of Kshs.7,374,245 which include loan disbursements of Kshs.7,367,200. However, details of the amount of loan in default was not provided for audit review. This is contrary to requirements of Regulation 23 of the Public Finance Management (Baringo County Small and Medium Enterprises Fund) Regulations, 2014 which requires the Fund administrator to prepare a portfolio analysis indicating number of loans issued, amount of loan issued, amount of loan outstanding and amount of loans in arrears.

Consequently, the Fund Management was in breach of the law.

## **8. Failure to Submit Financial Statements**

The Fund's bank statements for the period ending 30 June, 2015 revealed total receipts of Kshs.15,000,000 which was represented by two deposits of Kshs.7,500,000 each on 23 January, 2015 and on 20 February, 2015. However, the Management of the Fund did not prepare and submit for audit the financial statements for the year ended 30 June, 2015. This is contrary to the requirements of Section 167 of the Public Finance Management Act, 2012 which requires the administrator of a county public fund established by the Constitution, an Act of Parliament or county legislation shall prepare financial statements for the fund for each financial year in a form prescribed by the Accounting Standards Board.

In the circumstances, the accuracy of the opening balances and the accountability of Kshs.15,000,000 disbursed in the financial year 2014/2015 could not be confirmed.

## **9. Late Submission of Financial Statements**

The financial statements of the Fund for the financial year ended 30 June, 2016 were submitted for audit on 20 January, 2020 contrary to the provisions of Section 167(1) of the Public Finance Management Act, 2012 which requires an Accounting Officer to prepare annual financial statements for each financial year within three months after the end of the financial year.

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

## **10. Lack of Risk Management Policy**

During the year under review, the Fund did not have a risk management strategy contrary to Regulation 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, 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 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 governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its 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 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 Fund's 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 internal controls, risk management and governance.

I am independent of Baringo County Small and Medium Enterprise 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 January, 2022**

# BARINGO COUNTY GOVERNMENT.

Email: kisasamuel@yahoo.com



Mwalimu plaza, 1st Floor  
P.O. BOX 053-30400,  
KABARNET.

Department of Industrialization, Commerce, Tourism and Enterprise Development

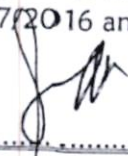
## BARINGO COUNTY – SMALL AND MEDIUM ENTERPRISE FUND

### STATEMENT OF RECEIPTS AND PAYMENTS

FOR FY 2015/2016 ( 1<sup>ST</sup> JULY,2015 - 30<sup>TH</sup> JUNE, 2016)

RECEIPTS	<u>KSHS</u>	<u>KSHS</u>
Balance B/F	1,435,383.00	
Intrest earned	0.00	
Transfers from Baringo County Treasury	2,413,000.00	
Loan Repayments	<u>6,740,547.00</u>	
<b>Total Revenue</b>		<b><u>10,588,930.00</u></b>
<b>PAYMENTS</b>		
Funds Uses/Expenditure/Disbursements	7,367,200.00	
Bank Charges	<u>7,045.00</u>	
<b>Total Payments</b>		<b><u>(7,374,245.00)</u></b>
<b>SURPLUS</b>		<b><u>3,214,685.00</u></b>

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 15/07/2016 and signed by:

  
\_\_\_\_\_  
Fund Administrator  
Small and Medium Enterprise Fund

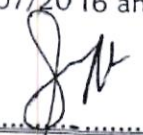




**STATEMENT OF CASH FLOW**

<b>Operating Activities:</b>	Kshs.	Kshs.
Receipts for operating income (bal b/d)	1,435,383.00	
Transfers from Baringo county government	2,413,000.00	
Loan Repayments	6,740,547.00	
Intrest earned	<u>0.00</u>	
		<b><u>10,588,930.00</u></b>
Less:		
Funds Uses/Expenditure/Disbursements	7,367,200.00	
Bank Charges	<u>7,045.00</u>	<b><u>(7,374,245.00)</u></b>
<b>Net Cash Inflow From Operating Activities</b>		<b><u>3,214,685.00</u></b>
 <b>Investing Activities:</b>		
Proceeds from sale of Assets	0.00	
Acquisition of Asset	<u>0.00</u>	
<b>Net Cash Inflow From Investing Activities</b>		<u>0.00</u>
 <b>Financing Activities:</b>		
Proceeds from Domestic borrowing	0.00	
Proceeds from Foreign Borrowing	0.00	
Loan repayments	<u>0.00</u>	
<b>Net Cash Inflow From Financing Activities</b>		<u>0.00</u>
 <b>Changes in Cash and cash Equivalent</b>		
Cash at end of the period		<b><u>3,214,685.00</u></b>

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 15/07/2016 and signed by:

  
 \_\_\_\_\_  
 15 JUL 2016

**Fund Administrator**

**Small and Medium Enterprise Fund**

STATEMENT OF FINANCIAL POSITTON

**FINANCIAL ASSETS**

Cash and cash equivalent

Bank balance

3,214,685.00

**Total Financial Assets**

3,214,685.00

Less:

**FINANCIAL LIABILITIES**

Accounts Payable

0.00

**Total Financial Liabilities**

0.00

**NET FINANCIAL ASSETS**

3,214,685.00

**REPRESENTED BY:**

Fund Balance c/Fwd

3,214,685.00

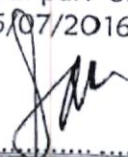
Add: Surplus Adjustment for previous period

0.00

**Net Financial Position**

3,214,685.00

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 15/07/2016 and signed by:

  
\_\_\_\_\_  
Fund Administrator

Small and Medium Enterprise Fund