

REPORT OF THE AUDITOR-GENERAL ON ALUPE UNIVERSITY COLLEGE FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Alupe University College set out on pages 1 to 24, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets and statement of cash flows 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 Alupe University College as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards and comply with Legal Order No.153 of July 2015.

Basis for Qualified Opinion

1. Unconfirmed Balances Between Alupe University College and Moi University

Note 17 to financial statements reflects trade and other payables from exchange transactions balance of Kshs.40,183,596 owed to Moi University as detailed below:

Item	Kshs.
Student Fees	4,136,580
Salaries Paid on behalf of Alupe University College	33,133,718
Advance from Moi University	2,913,298
Total	40,183,596

However, it was noted from the unsigned handing over report of assets and liabilities dated 19 March 2018 that the net asset position of Moi University stood at a figure of Kshs.88,208,101 as detailed in table 2 below;

Item	Kshs.
Salary (August 2015 to June 2017)	75,114,999
Casual Wages (August to June 2017)	21,676,701
Item	Kshs.
Expenses/Payments made for by Moi University	5,377,936
Outstanding Invoices	786,520
Less: Students fees	(14,748,055)
Total	88,208,101

Arising from above, the unreconciled difference amounts to Kshs.48,

024, 505 and it has not been possible to ascertain the correct assets and liabilities balances position.

2. Alupe University College Land

Excluded from the property, plant and equipment figure of Kshs.89,725,046 reflected under Note 16 to the financial statements, is a piece of land estimated at 200 acres which is part of the assets handed over to the College by Moi University. However, review of the land records revealed the following anomalies; -

- The land was valued at Kshs.123,000,000 vide the valuation report dated July 2018.
- The land was not incorporated in the assets register and schedule as part of assets taken over as at the time of Gazettement of the University College on 24 July 2015.
- The ownership documents were still in the name of Moi University.

In the circumstances, it has not been possible to confirm completeness and ownership of the property, plant and equipment balance of Kshs.89,725,046 as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Alupe University College in accordance with ISSAI 30 on Code of Ethics. I have fulfilled 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 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 financial 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 procedures performed, except for the matter described in the Basis of Qualified Report section of my report, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

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 procedures performed, except for the matter described in the Report on Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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.

Basis for Conclusion

1. Weaknesses in the Internal Control Environment

It is a requirement that for proper operations of the entity, there should be human resource policies, code of conduct for employees, risk management policy and documented key financial procedures in place. The College's Council is required to set and oversee overall strategy and approve significant policies of the organization. However, it was noted that the College had weaknesses in its internal controls which includes among others:

- The code of conduct for employees being used in the College was still in draft form and it had not been adopted by the College Council.
- The human resource manual was still in draft form.
- The College did not have a disaster recovery plan/business continuity plan.
- The College had not put in place risk management policy to mitigate on possible risks encountered in its operations.
- The risk assessment that had been carried out by the internal auditor was financial in nature, however, other organizational risks concerning human resource, structural facilities and academics had not been assessed.
- Review of internal audit records and annual work plan revealed that there were no documented policies and procedures to guide key financial processes.

Weaknesses in the internal controls noted may lead to irregularities in the College which may go undetected.

2. Governance Structure

According to Section 66 of Public Financial Management Act, 2012, all accounting officers should establish appropriate systems for internal control and risk framework. However, review of issues of governance at the College revealed that the internal audit manual was still in draft form.

In the circumstances, the internal audit department may not be appropriately and effectively constituted to discharge its oversight mandate over the governance of the College.

3. Employment without Adherence to the Scheme of Service

Contrary to the regulations, it was noted that new employments were done without realistic job description. With reference to the internal memo dated 9 January 2018, it was observed that the senior accountant (expenditure) had a total of 28 responsibilities to deliver which was unrealistic.

Lack of segregation of duties may lead to duplication of roles, weak internal controls and may affect the efficiency of the staff in the execution of duties

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 College's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the College or to cease operations, or have no realistic alternative but to do so.

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 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 financial reporting process, reviewing the effectiveness of how the College 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 of the Financial Statements

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 the going concern 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 ability to continue as a going concern or 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 University College to cease to continue as a going concern or 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 University College 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 Edward R. O. Ouko, CBS
AUDITOR-GENERAL

NAIROBI

21 February 2019