

# **REPORT OF THE AUDITOR-GENERAL ON ALUPE UNIVERSITY COLLEGE FOR THE YEAR ENDED 30 JUNE, 2019**

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## REPORT ON THE FINANCIAL STATEMENTS

### **Opinion**

I have audited the accompanying financial statements of Alupe University College set out on pages 1 to 30, which comprise the statement of financial position as at 30 June, 2019, and 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, the financial statements present fairly, in all material respects, the financial position of the Alupe University College as at 30 June, 2019, 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 Legal Order No.153 of July, 2015 and Public Finance Management Act, 2012.

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Alupe University College 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. 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 judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

### **Other Matter**

#### **Unconfirmed Balances Between Alupe University College and Moi University**

As previously reported in the year ended 30 June, 2018, the Management of the University College has not resolved unreconciled differences of Kshs.48,024,505 between the balance of Kshs.40,183,596 reported in the financial statements under trade and other payables from exchange transactions, and the corresponding balance of Kshs.88,208,101 reflected in an unsigned handing and taking over report of

19 March, 2018 with Moi University in respect to trade and other payables from exchange transactions owed to Moi University.

Management has not provided a reconciliation between the two sets of records.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, 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. Land Without Ownership Documents**

Included in the property, plant and equipment balance of Kshs.475,506,230 reflected in the statement of financial position as at 30 June, 2019 is an amount of Kshs.123,000,000 representing book value of land measuring 200 acres, which the University College inherited from Moi University. However, the College does not have a title deed for the land. However, Management has indicated that the process of transferring the title deed from Moi University to Alupe University College is on-going and is expected to be concluded in the financial year 2019/2020.

From the foregoing, it has not been possible to confirm the rightful owner of the parcel of land. There is a risk of losing the land, or part of it, in the event that the University College ceases to be a constituent college of Moi University before the transfer of title is complete.

#### **2. Completed Fabricated Anatomy and Pathology Laboratory Not Operational**

The University College entered into a contract with a local contractor at a contract sum of Kshs.239,887,920. The works constitutes the erection and completion of pre-fabricated structures which includes an anatomy and pathology laboratory, biochemistry, microbiology and administration blocks. The contract was to commence on 11 May, 2018 with initial completion date of 18 November, 2018 which was later extended to May, 2019. However, physical verification of the project revealed that all the three structures were complete, equipped and commissioned. However, the anatomy and pathology laboratory which was well equipped with cold room facilities for 16 bodies was not operational at the time of audit. Management has attributed the situation to budgetary constraints which has hampered the recruitment of a mortuary attendant.

In view of the foregoing, Management has not obtained value for money from the laboratory while students and the neighbouring communities have not received any services from the constructions as anticipated.

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 audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else 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. Unapproved Payments of Imprests**

Scrutiny of the imprest records revealed that imprest totalling Kshs.778,090, was paid to various employees of the University College without approval as the relevant request for imprest vouchers were not examined and signed by a senior accountant, and finance officer and approved by the accounting officer. Management has however, undertaken to ensure that all imprest requests are processed procedurally.

Weak controls over processing of imprests may have resulted in the University College losing funds through paying imprests to ineligible staff and for ineligible services.

#### **2. Weaknesses in the Internal Control Environment**

As previously reported, the University College has not concluded on the finalization of the Risk Management Policy, Internal Audit Manual, Code of Conduct for employees, Human Resource Manual, Disaster Recovery Plan/Business Continuity Plan all of which are in draft form and has not been launched to mitigate on the weaknesses in the internal control environments.

Further, no risk assessment has been carried out by the Internal Auditor both for the financial and academics, the core business of the University College. Other organizational risks have also not been assessed.

Although Management has explained that efforts to address these weaknesses are ongoing, the efforts are being hampered by inadequate funding.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 University Council**

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 College'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 liquidate the College 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.

The University Council is 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 overall 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 overall 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 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 College'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 College to cease to continue 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 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**17 February, 2021**