

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Bomet University College set out on pages 1 to 33, which comprise of the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in net assets, statement of cash flows and the 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Bomet 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 the Universities Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The balances reflected in the financial statements are at variance with the figures in the supporting documents availed as detailed below:-

Details	Financial Statements Balance (Kshs.)	Supporting Document Balance (Kshs.)	Variance (Kshs.)
Revenue from Other Governments	131,532,000	111,865,422	19,666,578
Remuneration of Directors/Council	19,587,000	19,977,000	(390,000)
Operations and Maintenance Sub-total-revised Estimates	1,200,000	21,200,000	(20,000,000)
Operations and Maintenance Sub-total-Actuals	927,000	20,903,000	(19,976,000)
Operations and Maintenance Sub-total-Variance	273,000	297,000	(24,000)
Non-current Assets	1,595,304,000	1,600,949,000	(5,645,000)

The variances have not been reconciled or explained.

Consequently, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Unsupported Revenue from Exchange Transactions

As disclosed under Note 7 to the financial statements, the statement of financial performance reflects revenue from exchange transactions – rendering of goods and services balance of Kshs.16,847,000. However, the balance has not been broken down into the individual revenue sources but was aggregated together as a single figure.

Consequently, it has not been possible to confirm the accuracy and completeness of the balance reflected in the statement of financial performance for the year ended 30 June, 2019.

3. Inaccuracies in General Expenses

As disclosed under Note 12 to the financial statements, the statement of financial performance reflects general expenses balance of Kshs.39,357,000. Included in the balance are non-expenditure items, being outstanding debts and revaluation of fixed assets of Kshs.7,577,000 and Kshs.875,000 respectively. No adjustments have been made to the financial statements to correct this anomaly.

Consequently, the accuracy and completeness of general expenses of Kshs.39,357,000 reflected in the statement of financial performance for the year ended 30 June, 2019 could not be confirmed.

4. Property, Plant and Equipment

As disclosed under Note 20 to the financial statements, the statement of financial position reflects non-current assets balance of Kshs. 1,595,304,000. The balance constitutes the value of land amounting to Kshs.934,800,000 which includes two (2) parcels of land with a total value of Kshs.334,800,000. However, Management did not provide any ownership documents such as title deed or allotment letter for audit review.

Further, and as previously reported, two parcels in Bomet town owned by the College have been encroached upon by third parties and informal settlers. The parcels of land have not been secured by a perimeter fence. No measures or plans have been taken to reclaim back the two (2) land parcels.

In addition, the above balance includes property, plant and equipment and computer balances of Kshs.8,448,026 and Kshs.1,647,989 respectively, that were transferred

from Moi University to the College when it ceased to be a constituent college on 29 March, 2018. The balances were not supported by any valuation report.

Consequently, the ownership and valuation of assets totalling Kshs.344,896,015 reflected in the statement of financial position as at 30 June, 2019 could not be ascertained.

5. Unreconciled Receivables from Exchange Transactions

As disclosed under Note 14 to the financial statements, the statement of financial position reflects receivables from exchange transactions balance of Kshs.4,407,000. However, the student ledger presented in support of the balance reflected an amount of Kshs.3,558,950, resulting to an unreconciled balance of Kshs.848,050.

Consequently, the accuracy and completeness of receivables from exchange transactions balance of Kshs.4,407,000 reflected in the statement of financial position as at 30 June 2019 could not be confirmed.

6. Unsupported Contingent Liability

As disclosed under Note 17 to the financial statements, the statement of financial position also reflects trade and other payables from exchange transactions balance of Kshs.55,926,000. Included in the balance is contingent liabilities balance of Kshs.4,981,000 which relates to liability for the supply of goods and services during the construction of the College's temporary dining hall and kitchen in 2016. However, Management did not avail supporting documents such as local purchase orders, local service orders, delivery notes and invoices for audit review.

Consequently, the fair value of the reported contingent liability balance of Kshs.4,981,000 reflected in the statement of financial position as at 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Bomet 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 qualified 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. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.170,617,000 and Kshs.148,379,000 respectively, resulting to a revenue shortfall of Kshs.22,239,000 or 13% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.144,316,000 and Kshs.153,402,000 respectively, resulting to an over expenditure of Kshs.9,086,000 or 6% of the budget. Further, the statement has not incorporated the development activities components.

Consequently, the activities planned for the year not undertaken may have negatively impacted on service delivery to the College stakeholders.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved all issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref. PASB/12/1/ (144) of June ,2019.

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 matters described in the Basis for Conclusion on Lawfulness and Effectiveness 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. Overpayment of Top Management

During the period between October, 2017 and June, 2019, the former principal and two deputy principals of the College served in acting capacity whereupon, they drew basic salaries for the upper substantive positions contrary to the advisory of the State Corporations Advisory Committee as detailed below:

	Substantive Basic	Acting Allowance at 15%		Actual Basic Paid	Overpayment (Kshs.)
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Designation	Salary (Kshs.)	(Kshs.)	Total Entitlement (Kshs.)	(Kshs.)	
Ag Principal	4,477,242	671,586	5,148,829	6,904,529	1,755,700
Ag Deputy Principal	4,152,359	622,854	4,775,213	6,404,332	1,629,119
Ag Deputy Principal	3,989,567	598,435	4,588,002	6,404,332	1,816,330
Total	12,619,168	1,892,875	14,512,044	19,713,193	5,201,149

This resulted in an overpayment of Kshs.5,201,149 which the audit and compliance committee of the University Council resolved to be recovered effective January, 2019. However, as at the time of audit in December, 2019, there was no evidence of the recoveries having been effected as directed.

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

2. Unremitted Pension and Gratuity Deductions

As previously reported an amount of Kshs.3,561,325 relating to gratuity and pension contributions for employees was deducted through Moi University payroll on behalf of Bomet University College. However, the Management has not availed any evidence to confirm the amounts have been remitted to the relevant bodies as at 30 June, 2019. This is contrary to the provisions of the Retirement Benefits Act, 1997.

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

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. Lack of Segregation of Duties over Payroll

The payroll system was managed by a sole member of staff, whose duties included data capture, approval, change management and authorization of payment. Further, admin rights over the payroll system continue to be solely held by the vendor in exclusion of the Management.

Consequently, there is lack of segregation of duties in the payroll process and control of the system by the vendor exposes the College to the risk of unauthorized access.

2. Lack of Risk Management Policy

The College does not have a risk management policy in place that guides on assessment and evaluation of risk and development of the strategies to mitigate them. Such policy would have ensured that the College develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal controls that builds robust business operations.

Consequently, service delivery could be adversely affected by if the risks were to crystalize.

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 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 Management and the 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 as a going concern, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Management is aware of 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 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 College's ability to continue as a going concern. 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 as a going concern.
- 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

21 July, 2021