

# **REPORT OF THE AUDITOR-GENERAL ON BUKURA AGRICULTURAL COLLEGE FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of Bukura Agricultural College set out on pages 1 to 19, which comprise the statement of financial position as at 30 June 2017, 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 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Bukura Agricultural College as at 30 June 2017, 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 do not comply with the Colleges Act, 1999, of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

### **Basis for Adverse Opinion**

#### **1.0 Current Assets**

##### **1.1 Lack of Deposit Account for Retention Monies**

Included in the cash and cash equivalents balance of Kshs.52,038,490 reflected in the statement of financial position is a balance of Kshs.13,591,816 being retention monies withheld from various contractors which, however, have not been deposited in a deposit bank account to separate them from operating cash balances as required by government financial regulations.

In the circumstance, it is not possible to confirm that the cash and cash equivalents balance of Kshs.52,038,490 and contractors' retention balances included therein are fairly stated.

#### **2.0 Non-current Assets**

##### **2.1 Unsupported Property, Plant and Equipment's Balance**

Included in the statement of financial position under non-current assets - property, plant and equipment balance of Kshs.697,211,023 is a sum of Kshs.11,221,408 incurred during the year under review being a portion of total work-in-progress on construction of the Education Complex Building Project valued at Kshs.177,625,731 as at 30 June 2017. However, the Kshs.11,221,408 payment made to the project contractor is supported with a summarized works certificate which, like the accompanying payment voucher, does not contain details of the works paid for, as outlined in the bills of quantities. Further, the project file does not specify works to be executed in construction of the Education Complex Building. In the absence of details on works paid for, the accuracy and propriety of the work-in-progress value of Kshs.177,625,731 as at 30 June 2017 disclosed in the financial statements cannot be confirmed, and as a result, it is not possible to confirm that the Property plant and equipment balance of Kshs.697,211,023 is fairly stated.

### **3.0 Unsupported Value of Biological Assets**

Included in the biological assets balance of Kshs.40,575,000 reflected in the statement of financial position as at 30 June 2017 is Kshs.15,900,000 in respect of other plantations comprised of exotic and indigenous trees. However, the management did not present the valuation certificate for the trees for audit and as a result it was not possible to confirm how the balance of Kshs.15,900,000 was arrived at.

In the circumstance, the accuracy and completeness of the Kshs.40,575,000 biological assets balance reflected in the statement of financial position as at 30 June 2017 cannot be confirmed. .

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Bukura Agricultural College in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other requirements applicable to performing audits of financial statements in Kenya. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my adverse 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 Adverse Opinion and Other Matter sections of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

### **Emphasis of Matter**

#### **Going-concern**

In the year under review, aggregate revenue decreased by Kshs.9,610,981 or 5% to - 178,261,962 from the balance of 185,332,142 recorded in the previous year. On the

other hand, aggregate expenditure increased by Kshs.14,057,683 or 7.2% from the sum of Kshs.194,943,123 incurred in 2015/16 to Kshs.209,000,806 during the year under review.

As a result of the decrease in revenue and increase in costs, the deficit for the year under review increased to Kshs.30,738,844, an increase of Kshs.21,007,073 or 215% from the sum of Kshs.9,731,771 reported in the previous year. Consequently, the accumulated deficit incurred by the College amounted to Kshs.67,727,511 as at 30 June 2017.

In the circumstance, the College may, in the coming years, not be able to meet its financial obligations and sustain its services without additional support from the National Government and creditors.

## **Other Matter**

### **1.0 Budgetary Control and Performance for the Year**

#### **1.1 Unexplained Variations from Budgeted Expenditures**

Examination of budgetary performance revealed variations of expenditure from the budget by more than the allowed 10% ratio as detailed below:

#### **1.2. General Expenses**

Several general expenses as well as income items varied significantly from their respective allocations in the budget as indicated in the table below. The management have not explained the causes of the unfavorable variances:

<b>Expenditure Item</b>	<b>Current Year Final</b>	<b>Budgeted Amount</b>	<b>Difference Between Budget and Actual</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>%</b>
Accommodation	6,416,025	5,791,600	-11
Daily Subsistence Allowance	1,557,078	1,100,000	-42
Legal Dues, Arbitration & Compensation	40,716	100,000	59
Medical Drugs & Other non-Pharmaceuticals	157,415	200,000	21
Telephone, Telex, Mobile Phones	139,799	170,000	18
Water and Sewerage Services	284,207	328,000	13
Purchase of Uniforms	297,220	260,120	-14

Student Council Allowances	574,259	684,000	16
Bank Commissions	178,035	200,000	11
iii. Training Expenses			
Education Aids and Materials	1,922,762	2,200,000	(12.60)
Training (tuition & accommodation)	1,735,184	1,443,229	

### 1.3 Revenue Variations

Similarly, revenue collected on various items varied from the budgeted sums as shown below:

	Final budget Kshs.	Actual on Comparable Basis Kshs.	Performance Difference Kshs.	%age
<b>Revenue</b>				
Government Grants	89,485,999.00	89,485,999.00	-	0%
Donor Grant	660,000.00	806,130.00	146,130.00	22%
School Fees	72,467,070.00	67,181,830.00	5,285,240.00	-7%
Other Income	24,756,610.00	22,256,003.00	2,500,607.00	-10%
<b>Total Income</b>	<b>187,369,679.00</b>	<b>179,729,962.00</b>	<b>7,639,717.00</b>	<b>-4%</b>
<b>Expenses</b>			-	
Personnel Emoluments	108,985,695.00	104,732,664.00	4,253,031.00	4%
Operating Expenses	67,323,581.00	62,335,430.00	4,988,151.00	7%
Technical Expenses	9,732,884.00	8,361,597.00	1,371,287.00	14%
Board Expenses	10,683,000.00	11,196,862.00	513,862.00	-5%
Depreciation	-	22,024,253.00	22,024,253.00	
<b>Total Expenditure</b>	<b>196,725,160.00</b>	<b>208,650,806.00</b>	<b>11,925,646.00</b>	<b>-6%</b>
<b>Surplus for the Period</b>	<b>9,355,481.00</b>	<b>28,920,844.00</b>	<b>19,565,363.00</b>	<b>209%</b>

ii. Other Income				
Short Courses	2,137,000	3,140,000	1,003,000	31.94

Management has not provided a plausible explanation the variations. Further, as the table shows, the deficit for the year, at Kshs.28,920,844, was 209% of the expected deficit of Kshs.9,355,481.

## 2.0 Imprests not Adequately Supported

During the year under review, the college issued imprests totaling Kshs.543,900 to three officers but the imprests were not supported with pro-forma invoices, receipts, invitation letters and time-tables and other training schedules:

Date	Payee	Description	Warrant number	Amount	Details
07/12/2016	Audrey Munai	Facilitation to Attend Payroll Training Software in Nairobi from 8th to 9th December 2016	3343	80,000	Documents not availed; pro-forma invoice from Netcome; receipt from the training institute; travel documents
27/01/2017	Dr. Richard Wekesa	Facilitation to Attend Mwongozo Induction Course in Mombasa on 6th to 8th February 2017	3411	78,400	Invitation letter not availed, travel documents not verified.
05/04/2017	Mutuku J.M	Upgrading Quality of pf Internal Auditors at Naivasha from 6th to 8th April 2017	3493	385,500	Training schedule, invitation letter, travel documents, receipt from the training institute of Kshs.150,000
<b>Total</b>				<b>543,900</b>	

In view of the missing documented and information, it has not been possible to confirm the propriety of the expenditures reported to have been incurred in relation to the imprests.

In addition, several officers were issued with imprests worth Kshs.449,740 during the year under review as detailed below. However, the respective surrender vouchers were not supported with imprest warrants as required under government financial regulations:

<b>Date</b>	<b>Payee</b>	<b>PV No.</b>	<b>Amount Kshs.</b>
16/05/2016	Joseph Towet	9037	75,650
24/10/2016	David K	9169	75,000
19/08/2016	Oliver Kosgey Kaino	8926	73,000
04/10/2016	Justus Mayaka	9081	50,450
25/07/2016	Oloo I George	8849	49,700
25/07/2016	Paul Njogo	8848	42,670
22/01/2017	Everlyne Kigaka	8841	42,670
28/07/2016	Olive Luvai	8852	40,600
			<b>449,740</b>

In view of the anomaly, it has not been possible to confirm the propriety of the expenditures reported to have been incurred from the imprests.

## **2.0. Excessive Employee Costs**

The Employees costs expenditure totaling of Kshs.104,732,664 incurred during the year under review and reflected in the statement of financial performance is equivalent to 58% of the aggregate income for the year amounting to Kshs.178,261,962. Thus, the ratio of employee costs to total income exceeds the ratio of 35% that public financial regulations prescribe for public entities. No plausible explanation has been provided by management for the anomaly.

## **3.0 Irregular Emoluments Paid to Officers on Study Leave**

Human resource records examined indicated that during the year under review, two officers were granted a two-year paid-leave each to undertake Master's Degree programmes . However, the human resource manual of the College lacks guidelines on paid-leave for employees on self-sponsored study-programmes and therefore it was not clear whether the courses they enrolled for were in the approved list of study programmes.

Also, the officers did not adhere to Section 6.3 of Public Service regulations which requires trainees to complete the training within the stipulated time and resume duty immediately. Review of the Curriculum obtained from one of the Universities indicated that the course only required attendance for three (3) one-hour sessions a week, on Mondays. Further, no records were made available for audit to confirm that the officers completed their courses and attained their certificates. In addition, they did not file any report on their training as required.

In the absence of this essential information, it is not possible to confirm whether the college benefitted in any way from the salaries and allowances payments totaling Kshs.9,500,000 made to the two officers during the time they were reported to be on study-leave.

#### **4.0. Over-expenditure and Unsupported Directors' Emoluments**

Included in the expenses balance of Kshs.208,650,806 is Kshs.11,196,862 spent on Directors' remuneration against the approved budget of Kshs.10,683,000, resulting into unexplained over-expenditure of Kshs.513,862. Further, in the months of February, March and May 2017, one member of the Board was paid a total of Kshs.667,000 in respect of one visit and consultative meetings reported to have been held severally each month of the financial year. However, the visit and the meetings were not supported with invitation letters, minutes, a signed attendance registers and no minutes were presented for audit to show that the Board had ratified the visit made by the Board member.

In the circumstances, it is not possible to confirm the propriety of the expenditure totaling Kshs.11,196,862 incurred on remuneration of Directors during the year under review.

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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 such 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.

In preparing the financial statements, management is responsible for assessing the ability of the College to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management is aware of the intention to liquidate the College or cease its 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.

Those charged with governance are responsible for overseeing the College's financial reporting process.

#### **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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the College's 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 College's ability 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 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 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 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**

**17 August 2018**