

# **REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL TRAINING COLLEGE FOR THE YEAR ENDED 30 JUNE 2017**

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## REPORT ON THE FINANCIAL STATEMENTS

### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Medical Training College set out on pages 29 to 54, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in equity, 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, 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 Kenya Medical Training 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 comply with Kenya Medical Training College Act, Cap 261 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Opinion and Emphasis of matter sections of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1.0 Revenue from Exchange Transactions**

##### **1.1 Fraudulent Receipts**

Included in the statement of financial performance for the year ended 30 June 2017 is tuition, boarding and application fees of Kshs.2,962,923,630 which includes fraudulent receipts for the period totaling Kshs.3,363,260 caused by the students falsifying deposit slips in the payment of fees. There was no evidence that the same had been recovered by the time of audit in February, 2018.

Consequently, the accuracy of the tuition, boarding and application fees of Kshs.2,962,923,630 included in statement of financial performance could not be confirmed.

#### **2.0 Receivables from Exchange and Non-Exchange Transactions**

As previously reported, receivables from exchange and non-exchange transactions balances totaling Kshs.457,178,715 reflected in the statement of financial position as at

30 June 2017 include brought forward amounts of Kshs.19,812,181 and Kshs.21,831,155 due from the Ministry of Health and Kenyatta National Hospital respectively and which, although recommended for write-off by the Board were not expunged from the books of account because approval in this respect had not been obtained from the parent Ministry by 30 June 2017.

Further, the total receivables transactions balance of Kshs.457,178,715 includes an amount of Kshs.64,656,640 in respect of accumulated rent arrears due from the University of Nairobi for ninety-six (96) rooms occupied by the University's medical students. Records available show that the rent arrears have accumulated at the rate of Kshs.2,803,200 per annum for over 23 years. However, no lease agreement between the College and the University was presented for audit verification.

Consequently, it has not been possible to establish the circumstances under which the arrears accumulated to Kshs.64,656,640 as at 30 June 2017.

### **3.0 Property, Plant and Equipment**

#### **3.1 Lack of land ownership documents**

As similarly reported in the year 2015/2016, property, plant and equipment balance of Kshs.5,840,132,791 reflected in the statement of financial position as at 30 June 2017 includes the following 22 parcels of land at the headquarters and constituent colleges with a total acreage of 277.587 acres valued at Kshs.502,485,000 in the June 2017 assets valuation report but whose title documents have not been availed for audit review:

<b>No.</b>	<b>Location of Parcel of Land</b>	<b>Size (Acres)</b>	<b>Value as at 30 June 2017</b>
1	Nairobi	5	88,750,000
2.	Nakuru	16.82	32,730,000
3.	Mombasa	4.42	19,800,000
4.	Kakamega	16.41	34,500,000
5.	Homabay	9.12	14,750,000
6.	Garissa	16.83	5,845,000
7.	Embu	8.471	13,600,000
8.	Meru	6.946	17,350,000
9.	Kisumu	21.5	41,450,000

10.	Murang'a	4	8,710,000
11.	Siaya	11.29	6,800,000
12.	Lodwar	40.11	11,500,000
13.	Loitokitok	3	2,550,000
14.	Kitui	20	20,000,000
15.	Port Reitz	7.5	28,500,000
16.	Kabarnet	9.25	5,600,000
17.	Kilifi	4.34	9,600,000
18.	Eldoret	21.32	43,250,000
19.	Msabweni	19.76	6,200,000
20.	Karuri	5	6,000,000
21.	Mathare	1.5	22,500,000
22.	Karen	25	62,500,000
	<b>Total</b>	<b>277.587</b>	<b>502,485,000</b>

Further, the lands occupied by the campuses have not been valued nor brought into the books of account.

Consequently, it has not been possible to confirm ownership of the twenty two (22) parcels of land included in the property, plant and equipment balance in the statement of financial position.

#### **4.0 Opening of New Constituent Colleges**

As reported in the previous year, the college opened eight (8) new constituent colleges during the years 2013/2014, 2014/2015 and 2015/2016 contrary to Part 4.0 of Expansion and Policy Guidelines Section 1 and 3 which states that new infrastructure should only be developed after concept paper and proposal in compliant with the respective Kenya Medical Training College strategic plan are prepared and approved, and source of financing identified. The new colleges are Makueni, Vihiga, Chwele, Kapenguria, Migori, Bomet, Kitale and Nyandarua. These colleges were not budgeted for in the year when established (2013/14) and the total expenditure of Kshs.104,870,2014 incurred on the same was not included in the annual estimates for the year. This is contrary to Section 12 of the State Corporations Act, Cap 446 which states that no corporation shall without the prior approval in writing of the Minister and

the Treasury incur any expenditure for which provision has not been made in annual estimates.

Further, a total of fourteen new constituent colleges with a total cost of Kshs.76,127,341 were opened during the financial year under review. They include; Kuria , Lake Victoria, Chuka, Gatundu, Iten, Kaptumo, Makindu, Molo, Mosoriot, Mwingi, Nyahururu, Rachuonyo, Rera and Othaya. These constituent colleges were not budgeted for during the year and were not included in the annual estimates for 2016/2017 contrary to Section 12 of the State Corporations Act, Cap 446. No reason has been provided for failure to comply with the expansion Policy and the State Corporations Act Cap 446. Consequently, the management is in breach of the law and the propriety of Kshs 76,127,341 utilized in opening of new constituent colleges for the year ended 30 June, 2017 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Medical Training 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 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.

### **Emphasis of the Matter**

It was observed that at the closing date of the financial year 2016/2017, Kenya Medical Training College had pending legal proceedings against them that if successful would cost the college approximately Kshs.1,653,515,593 and which would have a significant impact on its finances and operations. These litigations have been disclosed under note (II) R of the financial statements as required by IPSAS 19 Paragraph 100 and IAS 37, there is a strong case against the College and the verdict may fall on either side/party.

### **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 matter described in the Basis for Qualified Opinion section, I have determined that there are no key audit matters to communicate in my report.

### **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 College's ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the College's or to cease operations, or have no realistic alternative but to do so.

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 Corporation'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 Corporation's 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 College to cease as a going concern or to continue 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 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**

**23 April 2018**