

REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL TRAINING COLLEGE FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Medical Training College set out on pages 30 to 55, which comprise the statement of financial position as at 30 June 2018, 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 2018, 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.

Basis for Qualified Opinion

1. Revenue from Exchange Transactions

Included in the statement of financial performance for the year ended 30 June 2018 is tuition, boarding and application fees of Kshs.3,432,127,210 which includes fraudulent receipts totalling Kshs.19,389,345 caused by falsification of deposit slips in the payment of fees. There was no evidence that the same had been recovered by the time of audit in February, 2019.

Consequently, the accuracy of the tuition, boarding and application fees of Kshs.3,432,127,210 included in the statement of financial performance could not be confirmed for the year ended 30 June 2018.

2.0 Cash and Cash Equivalents

2.1 Cash at Hand

As disclosed at note 14 to the financial statements, cash and cash equivalents balance of Kshs.1,623,526,964 as at 30 June 2018 include cash at hand balance of Kshs.1,591,694 out of which cash balances totalling to Kshs.50,024 made up of Tana River campus Kshs.44,360 and Chuka campus Kshs.5,664 were not supported by cash survey certificates.

2.2 Cash at Bank and Mpesa

Note 14 to the financial statements reflects cash at bank balance of Kshs.1,621,655,576 as at 30 June 2018. However, a review of the reconciliation statements revealed the following anomalies;

2.2.1 Bank and Mpesa Confirmation Certificates

Confirmation certificates in respect to nine (9) bank accounts and one Mpesa account for the headquarter amounting to Kshs.18,661,278 were not availed for audit verification.

2.2.2 Outstanding Reconciling Items

A review of the various reconciliation statements revealed the following;

- (i) Un-presented cheques totalling to Kshs.101,186,927 in respect to five (5) bank accounts were outstanding as at 30 June 2018 and the clearance status had not been disclosed as at 29 March 2019.
- (ii) Receipts in bank not in cashbook totalling to Kshs.2,150,200 in respect to four (4) bank accounts were also outstanding as at 30 June 2018 and the clearance status as at 29 March 2019 had not been disclosed.
- (iii) Payments in bank not in cashbook totalling to Kshs.527,574 in respect to eight (8) bank accounts were outstanding as at 30 June 2018 and the clearance status had not been disclosed as at 29 March 2019.
- (iv) Receipts in cashbook not in bank statements totalling to Kshs.92,500 in respect to six (6) bank accounts were also outstanding as at 30 June 2018 and the clearance status had been disclosed as at 29 March 2019.

Further, the bank reconciliation statement for Othaya and Tana River Accommodation accounts reflect balance as per bank statement of Kshs.650,985 and Kshs.26,879 respectively but the bank confirmation certificates reflect Kshs.654,985 for Othaya and Kshs.46,764 for Tana River resulting in unreconciled difference of Kshs.4,000 and Kshs.19,885 respectively.

Consequently, the validity and accuracy of cash and cash equivalent balance of Kshs.1,623,526,964 as at 30 June 2018 could not be confirmed.

2. Receivables from Exchange and Non-Exchange Transactions

As previously reported, receivables from exchange and non-exchange transactions balances totalling Kshs.448,002,159 reflected in the statement of financial position as at 30 June 2018 include brought forward balances 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 in February 2007, the same were not expunged from the books of account because approval in this respect had not been obtained from the parent Ministry by 30 June 2018. Further, the total receivables balance of Kshs.448,002,159 includes an amount of Kshs.67,459,840 in respect of accumulated rent arrears due from the University of Nairobi for ninety-six (96) rooms occupied by the University's medical students. However, no lease agreement between the College and the University was presented for audit verification. It is not clear under what circumstances the arrears accumulated to Kshs.67,459,840 as at 30 June 2018.

Consequently, the validity, accuracy, and full recoverability of receivables balance of Kshs.448,002,159 as at 30 June 2018 could not be confirmed.

4.0 Property, Plant and Equipment

4.1 Lack of land Ownership Documents

As previously reported, property, plant and equipment balance of Kshs.6,393,208,699 reflected in the statement of financial position as at 30 June 2018 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 2018 assets valuation report but whose title documents have not been availed for audit review:

No.	Location of Parcel of Land	Size (Acres)	Value as at 30 June 2018
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

No.	Location of Parcel of Land	Size (Acres)	Value as at 30 June 2018
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
	Total	277.587	502,485,000

Further, the lands occupied by the following thirty-two (32) campuses have not been valued nor brought into the books of account:

S/No	Campus	S/No	Campus	S/No	Campus
1	Chwele	12	Lamu	23	Nyamira
2	Gatundu	13	Lugari	24	Nyandarua
3	Isiolo	14	Makindu	25	Othaya
4	Iten	15	Makueni	26	Rera
5	Kapenguria	16	Manza	27	Thika
6	Kaptumo	17	Migori	28	Ugenya
7	Kitale	18	Molo	29	Vihiga
8	Kombewa	19	Mosoriot	30	Voi
9	Kuria	20	Mwingi	31	Wajir
10	Kwale	21	Nyahururu	32	Webuye
11	Lake Victoria	22	Nyamache		

Consequently, it has not been possible to confirm ownership of the twenty two (22) parcels of land valued at Kshs.502,485,000 and that the property, plant and equipment balance of Kshs.6,393,208,699 in these financial statements as at 30 June 2018 is fairly stated.

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.

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.

Other Matter

Budget and Budgetary Control

During the year under review, the College's actual receipts amounted to Kshs.7,071,357,242 against budgeted receipts of Kshs.6,486,834,400 resulting in a revenue surplus of Kshs.584,522,842. This could be an indication of coming up with low budget targets. There is need therefore for the management to review its budget making mechanism with a view to coming up with more challenging targets to achieve even higher revenue growth. Further, the College's actual expenditure for the year amounted to Kshs.6,344,672,968 against budgeted expenditure of Kshs.6,988,495,054 resulting in an overall under absorption of Kshs.643,822,086. It is therefore clear that the College did not fully achieve its budget objectives which adversely affected delivery of the intended services to the public. Therefore, there is need for the College to review its budget implementation process with a view to coming up with a vibrant budget implementation follow up mechanism and feedback processes with a view to ensuring that all projects and activities are implemented as planned for the College to meet its mission and objectives for the benefit of Citizens of Kenya.

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 Qualified Opinion and Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Opening of New Constituent Colleges

As reported in the previous year, the college opened twenty two (22) new constituent colleges during the years 2013/2014, 2014/2015, 2015/2016 and 2016/2017 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, Nyandarua, Kuria, Lake Victoria, Chuka, Gatundu, Iten, Kaptumo, Makindu, Molo, Mosoriot, Mwingi, Nyahururu, Rachuonyo, Rera and Othaya. These colleges were not budgeted for in the years when established and the total expenditure of Kshs.180,997,555 incurred on the same was not included in the annual estimates for the respective 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. No reason has been provided for failure to comply with the expansion Policy and the State Corporations Act Cap 446.

3. Quality of Training

As at 30 June 2018, the Kenya Medical Training College had 66 campuses spread across the county with a student population of 34,918 and total number of lectures including principals, dean of students and head of departments of 542. This translates to lecture student ratio of 1:65 which is below the International Standards on Quality Training of Health Workers which places the lecturer student ratio during classroom teaching at 1:10 resulting to a shortfall of 2,950 lecturers for the college to attain quality training level.

It is not clear the strategies being put in place by the management to bridge the gap between the current lecture students' ratio and the recommended optimum ratio.

4. Composition of the Board

During the year under review, the KMTC Board of Directors comprised of thirteen (13) board members excluding the Chief Executive Officer and the Corporation Secretary. The composition of the board is guided by the KMTC Act Cap 261 Revised Edition 2012 (1990) which allows a board composition of eighteen (18) members. However, this is inconsistent with the Mwongozo Code of Governance for State Corporations 2015 that requires Boards to comprise of a minimum of seven (7) and a maximum of nine (9) members and the State Corporations Act Cap 446 Section 6(1) that recommends board composition of eleven (11) members.

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 matter described in the Basis for Qualified Opinion 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.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards requires 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 continue as a going concern / 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.

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, revenue 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.

Those charged with governance are responsible for overseeing the College's revenue reporting process, reviewing the effectiveness of how the entity 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

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 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 review 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 Board's 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 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's to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the revenue 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's 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

18 April 2018