

REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL TRAINING COLLEGE FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Medical Training College set out on pages 33 to 60, which comprise of the statement of financial position as at 30 June 2019, statement of financial performance, statement of changes in equity, 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 Kenya Medical Training 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 Kenya Training College Act, Cap 261 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements Balances

As disclosed in Note 25 to the financial statements, the statement of financial performance reflects a balance of Kshs.3,618,552,292 in respect of employee costs during the year under review. However, the comparative balance of Kshs.3,590,678,857 reflected in the statement of financial performance differs significantly with the figure of Kshs.4,144,802,563 reflected in the respective notes to the financial statements by Kshs.554,123,706. Similarly, the statement of financial performance reflects a balance of Kshs.1,748,981,591 in respect of general expenses which differs significantly with the figure of Kshs.1,194,857,885 reflected in Note 26 to the financial statements by Kshs.554,123,706.

In the circumstances, the accuracy of statement of financial performance for the year ended 30 June, 2019 could not be confirmed.

2. Cash and Cash Equivalent

As disclosed in Note 32 to the financial statements, the statement of financial position reflects cash and cash equivalents balance of Kshs.1,559,738,289. However, a review of the bank reconciliation statements revealed un-presented cheques totalling to Kshs.2,675,022, receipts in bank not in cashbook totalling to Kshs.2,352,722, payments in bank not in cashbook totalling to Kshs.6,611,634. Further, there were receipts in cashbook not in bank statements totalling to Kshs.8,156,280 an indication that cash was not banked intact contrary to the financial regulations.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.1,559,738,289 reflected in the statement of financial position as at 30 June, 2019 could not be ascertained.

3. Long Outstanding Balances - Receivables from Exchange Transactions

As disclosed in Note 25 to the financial statement, the statement of financial position reflects a balance of Kshs.458,872,363 in respect of receivables from exchange transactions which constitutes an amount of Kshs.73,883,540 in respect of accumulated rent arrears. The amount is due from the University of Nairobi for ninety-six (96) rooms occupied by the university's medical students at Kshs.80 per day. However, lease agreement between the College and the University was provided for audit review. Although Management has indicated that the college has issued demand letters to the University for the clearance of the outstanding amounts and a vacation notice to enable the College student occupy the hostels, the rents is said to continue to accumulate for over 20 years now.

Further, the balance includes outstanding fees balance of Kshs.380,130,614 out of which Kshs.46,791,116 has been outstanding for more than one year. In particular, the balance includes outstanding fees balance of Kshs.10,362,171 under Kuria Campus out of which an amount of Kshs.7,102,021 represents money collected in form of cash directly from students but was not banked or reflected in the students' accounts.

In the circumstances, the validity, accuracy, and full recoverability of total receivables balance of Kshs.120,674,656 included as receivables from exchange transactions in the statement of financial position as at 30 June, 2019 could not be confirmed.

4. Property, Plant and Equipment

As disclosed in Note 35 to the financial statements, the statement of financial position reflects an amount of Kshs.6,859,247,709 under property, plant and equipment. However, and as previously reported, this constitutes the value of eighteen (18) parcels of land at the Headquarters and constituent colleges with a total acreage of 241.731 acres all valued at Kshs.333,385,000 but whose title documents were not availed for audit review. It has also been noted that land occupied by forty-five (45) campuses located across the country have not been valued and disclosed in records.

Consequently, the accuracy, completeness and ownership of land valued at Kshs.333,385,000 as at 30 June, 2019 could not be confirmed.

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

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the 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 reference No PSASB/1/12/(44) of 25 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 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

Rental Revenue from Facilities and Equipment

The statement of financial performance reflects rental revenue from facilities and equipment of Kshs.35,970,532. However, review of records revealed that six (6) tenants residing at the College Headquarters and whose annual rent amounts to Kshs.5,892,000 did not have valid lease agreements in place.

Consequently, the validity of rental income totalling to Kshs.5,892,000 in respect of the six (6) tenants could not be confirmed.

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 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

Lack of Land Valuation

As disclosed in Note 35 to the financial statements, the statement of financial position reflects an amount of Kshs.6,859,247,709 in respect of property, plant and equipment. However, the movement schedule reflects land with a cost value of Kshs.1,165,920,000 which is based on a valuation done in 2005 over fourteen (14) years ago, an indication that the College's land may be grossly undervalued as at 30 June, 2019. Management has not explained why the College's land has not been revalued since 2005 to obtain the fair value of the land.

In the circumstances, I am unable to confirm existence of effective internal controls on the land.

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 Board of Directors

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 as a going concern, disclosing, as applicable, matters related to going concern and using the going concern 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 Board of Directors is responsible for overseeing the College's financial 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 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 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

19 August, 2021