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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Utalii College set out on pages 1 to 29, which comprise the statement of financial performance as at 30 June 2018, and the statement of financial position, statement of cash flow, statement of changes in net assets, consolidated statement of comparison of budget and actual amounts and notes to the financial statements for the year then ended, 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 Utalii 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 the Tourism Act No.28 of 2011.

Basis for Qualified Opinion

1. Financial Performance

During the year under review, the College reported a deficit of Kshs.399,665,192: (2017 of Kshs.510,579,471) while current liabilities balance of Kshs.3,786,981,791 exceeded current assets of Kshs.633,007,895 resulting to a negative working capital of Kshs.3,153,973,896 as at 30 June 2018 (2017 of Kshs.2,840,750,721). The College is therefore technically insolvent and its continued existence as a going concern is dependent on financial support from the Government and its creditors. These events or conditions, indicate that a material uncertainty exists that may cast significant doubt about the College's ability to continue as a going concern.

2. Trade and Other Payables

The trade and other payables from exchange transactions balance of Kshs.3,602,574,445 as at 30 June 2018, includes long outstanding creditors amounting to Kshs.3,300,278,035. The long outstanding creditors including accrued GOK interest of Kshs.3,296,615,100 as per note 17 to the financial statements represent 92% of the total trade and other payables from exchange transactions balance.

In the circumstances, the College's ability to settle bills when they fall due appears uncertain.

3. Long Outstanding Receivables

3.1 Exchange Transactions

Included in receivables from exchange transactions balance of Kshs.278,291,962 as at 30 June 2018 is an amount of Kshs.131,198,575 which has been outstanding for a period of more than one year, of which Kshs.9,055,163 is from former staff and Kshs.2,949,045 from insolvent/dead entities as shown below;

Description	**Amount Kshs.**
Debt outstanding for 1 -3 Years	1,996,063.97
Debt outstanding for 4-7 Years	117,198,302.79
Former Staff	9,055,162.80
Insolvent /dead entities	2,949,045.70
Total	**131,198,575.26**

3.2 Non-Exchange Transactions

Further, the receivables from non-exchange transactions balance of Kshs.174,162,261 as at 30 June 2018 includes an amount of Kshs.99,538,261 which has been outstanding for a period of between four and seven years. The College has not provided reasons why such receivables have been outstanding for long period.

Consequently, it has not been possible to confirm the recoverability, accuracy and completeness of receivables both from non-exchange transactions balances of Kshs.174,162,261 as at 30 June 2018.

4. Loan from Government of Kenya

As previously reported, the College has not complied with the loan agreement signed between it and the Government of Kenya for a loan of Kshs.140 million advanced to the College in February 1996 to refurbish the Kenya Utalii Hotel. Payment for the loan amounted to Kshs.13 million as at 30 June 2017 and since then no further payment has been made by the College. As reflected under Note 17 to the financial statements, accumulated interest as at 30 June 2018 amounted to Kshs.3,296,615,100 and outstanding loan being Kshs.127,125,028 resulting to Kshs.3,423,740,128 accumulated liability from interest and penalties on the initial loan of Kshs.140 million. Further, and although the previous year's financial statements indicated that the College had entered into negotiations with the Government to have the loan together with accumulated interest written off, no meaningful progress in this regard had been recorded. The hotel, whose revenues were meant to repay the loan, is a training laboratory for the college. Its profitability is highly compromised by capacity and high operational costs due to its orientation as a training unit and therefore efforts must be made to save the Hotel whose location is ideal to operate both commercially and as a training laboratory for the College to save her from the financial woes.

5. Development Grant

As previously reported, the Ministry disbursed Kshs.200 million in 2016/2017 financial year to the College for development of a new training practical block. Available information indicates that Kshs.100 million was deposited in a call account while an amount totaling Kshs.40,261,605 was spent on consultancy services, obtaining permit from the County Government, technical evaluation retreat, and advertisements for procurement of construction services. The remaining balance of Kshs.59,738,395 was utilized on recurrent expenditure without the requisite Council and National Treasury approvals. Further, there is no evidence of work in progress of development of a new practical training block recognized in the financial statements.

Consequently, the College was in breach of Section 48 1(c) of Public Finance Management Act, 2012 which stipulates that grants be used only to finance programs in the integrated development plan.

6. Delivery and Installation of the Student Access Control System

Delivery and installation of the student access control system began in September 2010 under tender No.KUC/33/2009/2010 awarded to a local company at a cost of Kshs.3,897,967. The amount paid as at 30 June 2018 was Kshs.1,183,390. The works were completed except commissioning which was not done due to pending issues that the supplier has never resolved to date. These include:

- Delivery of access control license registered under Utalii,
- Contractor did not sign service level agreement.

The works above have never been completed to date.

Although the works were completed, commissioning has not been done because the contractor did not deliver an access control license registered under the College and also did not sign service level agreement as per the agreement provisions.

7. Inventories

During the year under review, the inventories balance of Kshs.19,530,120 as at 30 June 2018 excluded the value of the library books. Further, although the College's assets were last revalued in October 2014 by independent valuer, the library books were not valued then.
In the circumstances, it has not been possible to confirm that the inventories balance of Kshs.19,530,120 as at 30 June 2018 is fairly stated.

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. Except for the matters 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

1. Overall Budget Analysis

During the year under review, the College had a budget of Kshs.1,474,000,001 comprising recurrent of Kshs.1,234,181,401 (75.99%) and development Kshs.239,818,600 (24.01%) respectively. The budget absorption for the year was as summarized below;

Votes	Budget Kshs.	Actual Kshs	Under-Absorpti (Ksh	Under/Over Absorption (%)
Recurrent	1,234,181,401	1,391,413,758	(157,232 357)	(13)
Development	239,818,600	34,032,011	205,786,589	14
Total	**1,474,000,001**	**1,425,445,769**	**48,554,232**	**3**

The College did not utilize Kshs.48,554,232 and no explanation was provided for underutilization. The under absorption of the approved budget is an indication that activities and projects in the work/procurement may not have been implemented by the Management. This is likely to have negative effect on the service delivery.

Further, the entity overspent on recurrent vote by Kshs.157,232,357 and no justification was provided for overutilization of recurrent vote.

2. Failure to Implement IFMIS Requirement

The College failed to implement IFMIS System and/or to link Enterprise Resource Planning (ERP) with IFMIS system therefore not conforming to the Presidential directive and the National Treasury Circular No.19/15, dated December 18th August 2015, Ref.DGIPE/A/1/10 Category 4-Other Projects which states that "State Corporations are required to ensure that capital projects are captured in the Plan-to-Budget in IFMIS and e-ProMIS as appropriates as to improve on the project database (record keeping) and enhance monitoring and evaluation" and Presidential directive dated August 2014 which indicated that all State Corporations like any other entities to employ full use of e-procurement by 1 January 2019.
The management was thus in contravention of Treasury circular and the Executive Order.

3. The Mombasa Campus and Nairobi Library Facilities

During audit inspection to the libraries in Mombasa and Nairobi Campuses, the following anomalies were noted;

- Mombasa Campus does not have qualified librarian to manage it. It was noted that the in charge of the campus selects one of the staff members from among them to carry out the tasks of a librarian.

- The facility at the Mombasa Campus is in a sorry state of affairs not befitting the renowned Utalii College. The Kitchen at the campus lacks the required training facilities as compared to their counterpart in Nairobi. Although the College has repute in hospitality training, it is in doubt whether students at the Mombasa campus enjoy similar facilities and standard of training as should be the case.

- The Nairobi Library has over 48,000 books that should be uploaded into the new system. The services of data entry clerks should have been engaged to fasten the process that has been ongoing since October 2018

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 Qualified Opinion 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

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 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.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard 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 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, disclosing, as applicable, matters related to going concern and using the going concern 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, 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.

Those charged with governance are responsible for overseeing the 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 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 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 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 to continue as a going concern or 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

26 August 2019