

REPORT OF THE AUDITOR-GENERAL ON TURKANA UNIVERSITY COLLEGE FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Turkana University College set out on pages 40 to 66, which comprise the statement of financial position as at 30 June, 2020, 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 Turkana University College as at 30 June, 2020, 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 Universities Act No.42 of 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Tuition Related Income

The statement of financial performance reflects tuition and related charges revenue of Kshs.11,408,880 which, as disclosed in Note 3 to the financial statements, comprised of twenty-one (21) revenue streams. However, student's records including student fees ledgers, journal vouchers, general ledger accounts, student fees and arrears subsidiary ledgers, and supporting schedules were not provided for audit review.

Consequently, the accuracy and completeness of tuition and related charges amount of Kshs.11,408,880 for the year ended 30 June, 2020 could not be confirmed.

2. Cash and Cash Equivalents

The statement of financial position reflects a balance of Kshs.179,531,642 under cash and cash equivalents which, as disclosed in Note 12 to the financial statements, includes bank balances totalling Kshs.179,475,140 held in five (5) bank accounts. However, bank confirmation certificates, bank statements and cash books for the five (5) bank accounts were not provided for audit review. Further, bank account No.1206564520 had unrepresented cheques totalling Kshs.3,111,678 whose clearance status was not confirmed.

In addition, review of the account No.1206564520 held at the Kenya Commercial Bank, Lodwar branch, revealed unusual cash withdrawals amounting to Kshs.21,388,817. No explanation was provided on why the transactions could not be made via electronic funds

transfer. Further, the nature of goods and services procured using the amount of Kshs.21,388,817 withdrawn in cash was not disclosed.

Consequently, the accuracy and completeness of cash and cash equivalents balance of Kshs.179,531,642 as at 30 June, 2020 could not be confirmed.

3. Inventories and Stores

The statement of financial position reflects a balance of Kshs.3,259,082 in respect of inventories and stores as at 30 June, 2020. However, the supporting schedules and stock sheets for the various categories of stock which included graduation gowns, cutleries, electrical appliances and other inventories were not provided for audit review.

Under the circumstances, the accuracy and completeness of the inventories and stores balance of Kshs.3,259,082 as at 30 June, 2020 could not be confirmed.

4. Property, Plant and Equipment

As disclosed in Note 21 to the financial statements, the statement of financial position reflects a balance of Kshs.892,745,521 under property plant and equipment. However, variances were noted between the amounts reflected in the financial statements and those reflected in the supporting schedules in respect of motor vehicles, computer and accessories, plant and equipment, library books and office equipment as detailed below:

	Balance as per Financial Statements (Kshs.)	Balance as per Supporting Schedule (Kshs.)	Variance (Kshs.)
Assets			
Motor Vehicles	4,631,336	6,429,504	(1,798,168)
Computer and Accessories	20,969	284,434	(263,465)
Plant and Equipment	10,055,765	9,701,255	354,510
Library Books	3,514,911	3,271,697	243,214
Office Equipment	522,608	601,839	(89,231)

Further, the detailed listing and valuation report for library books acquired at a cost of Kshs.23,361,270 from the Mount Kenya University were not provided for audit review. In addition, part of the land for the University College has been encroached by a private developer and the case is on-going in court.

Under the circumstances, the accuracy and completeness of the property plant and equipment balance of Kshs.892,745,521 as at 30 June, 2020 could not be confirmed.

5. Errors in the Statement of Changes in Equity

The statement of changes in equity reflects a revaluation reserve negative balance of Kshs.190,664,391 as at 1 July, 2019 instead the negative balance of Kshs.108,693,818 reported as at 30 June, 2019. The statement also reflects an incorrect reporting date of 30 June, 2019 instead of 30 June, 2020. Further, the retained earnings negative balance

of Kshs.35,835,933 as at 30 June, 2020 is exclusive of the brought forward negative balance of Kshs.81,970,573 as at 1 July, 2019. In addition, the statement should reflect accumulated reserves and not retained earnings. No explanation was provided for the omissions.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Turkana University College Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAIs 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. There were no Key Audit Matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual revenue on comparable basis of Kshs.299,021,000 and Kshs.233,719,000 respectively resulting in under-performance of Kshs. 65,302,000 or 22%. Similarly, the University College budgeted to spend a total of Kshs.279,493,000 against the actual expenditure of Kshs.192,430,000, resulting in an overall under-expenditure of Kshs.87,063,000 or 31% of the budget. The budget deficit and under-expenditure may have affected the planned activities of the University College. Further, the University Council minutes approving the 2019/2020 financial year budget and approval by the Cabinet Secretary were not provided for audit review.

2. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.

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 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

1. Staff on Acting Positions Beyond Six Months

During the year under review, the University College appointed seventeen (17) members of staff into various positions in an acting capacity. However, there was no evidence indicating that the acting staff were paid their acting allowances and other related remunerations that come with the acting position. Further, some of the staff have been in acting position for more than six (6) months. This is contrary to Section 34(3) of the Public Service Commission Act, 2017 that states that an officer may be appointed in an acting capacity for a period of at least thirty days but not exceeding a period of six months. No explanation has been provided by Management on why the posts have not been filled or the officers confirmed to the posts.

Under the circumstances, the University Management was in breach of the law.

2. Lack of Stock Take and Procurement Plan

As disclosed in Note 15 to the financial statements, the statement of financial position reflects an inventory balance of Kshs.3,259,082 as at 30 June, 2020. However, quarterly and annual stock take were not conducted contrary to Section 162(2) of the Public Procurement and Asset Disposal Act, 2015 which requires the Head of Procurement to, at least quarterly in each calendar year, conduct quarterly and annual inventory and stock taking in order to ensure compliance with all respective governing laws and submit the report to the Accounting Officer. Further, the procurement plan for the year was not provided for audit review.

Consequently, the Management was breach of the law and stock loss is likely to occur due to failure to carry out quarterly and annual stock takes.

3. Imprests Issued to Staff members on Behalf of Others

During the year under audit, imprests amounting to Kshs.6,797,415 were issued to some staff members on behalf of others. This is contrary to Regulation 91(2) of the Public Finance Management (National Government) Regulations, 2015 which requires the officer authorized to hold and operate imprest to make a formal application for imprest through an imprest warrant.

The University Management was in breach of the regulations.

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

Understaffing

The Finance Department had only four (4) employees, Audit had one (1) employee, Procurement had two (2) employees while Catering had only one (1) employee working as a caterer, waiter and a cleaner. The Departments were not adequately staffed to carry out their mandates and there was no proper segregation of duties contrary to Section 165 of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer of a National Government entity to develop — (a) risk management strategies, which include fraud prevention mechanism; and (b) a system of risk management and internal control that builds robust business operations.

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 the University Council

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 University 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 terminate the University 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 University Council is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the University College 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 University College 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 University 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 University 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 University 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

10 December, 2021