

REPORT OF THE AUDITOR-GENERAL ON TURKANA UNIVERSITY COLLEGE FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Turkana University College set out on pages 1 to 28, which comprise the statement of financial position as at 30 June, 2019, 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, 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 the Universities Act No.42 of 2012 and the Public Finance Management Act, 2012.

Basis for Qualified opinion

1.0 Inaccuracies of the Financial Statements

The financial statements for the year ended 30 June, 2019 submitted for audit had various inaccuracies as detailed below.

- i. The statement of financial performance reflects revenues from exchange transactions of Kshs.38,910,731 while the corresponding Note 10 to the financial statements reflects an amount of Kshs.33,486,550 resulting in an unreconciled variance of Kshs.5,424,181.
- ii. The statement of financial position reflects a balance of Kshs.789,389,065 under property, plant and equipment while the while the movement schedule at Note 19 to the financial statements reflects a balance of Kshs.968,818,900 resulting in an unreconciled variance of Kshs.179,429,835.
- iii. The statement of financial position reflects a balance of Kshs.2,957,782 under inventory and stores. However, the balance is not analyzed with a corresponding Note to the financial statements. Further, the supporting stock sheets for the various categories of stock which, included graduation gowns, cutleries, electrical appliances and other inventories, were not provided for audit review.

- iv. The following comparative amounts reflected in 2018/2019 financial statements differed with the amounts reported in 2017/2018 financial year as indicated below.

Item	Balance as per 2018/2019 Financial Statements Kshs.	Balance as per 2017/2018 Financial Statements Kshs.	Variance Kshs.
Other Expenses	15,290,667	11,677,959	3,612,708
Income Generating Units (IGU)	-	2,268,666	2,268,666

Under the circumstances, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2.0 Tuition and Related Charges

The statement of financial performance reflects tuition and related charges revenue of Kshs.38,910,731 which, as disclosed in Note 10 to the financial statements, comprised of twenty-five (25) 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.38,910,731 for the year ended 30 June, 2019 could not be confirmed.

3.0 Cash and Cash Equivalents

The statement of financial position reflects a balance of Kshs.77,914,408 under cash and cash equivalents which, as disclosed in Note 7 to the financial statements, was held in held in five (5) bank accounts. However, cash books as at 30 June, 2019 in respect of the bank accounts were not provided for audit review. Further, collection account No. 1204387079 and deposits account No. 1205643117 had unrepresented cheques amounts of Kshs.1,131,711 and Kshs.7,849,790 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 were not 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.77,914,408 as at 30 June, 2019 could not be confirmed.

4.0 Property, Plant and Equipment

As disclosed in Note 19 to the financial statements, the statement of financial position reflects a balance of Kshs.789,389,065 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 and capital work-in-progress as detailed below.

Asset	Balance as per Financial Statements (Kshs.)	Balance as per Supporting Schedule (Kshs.)	Variance (Kshs.)
Motor Vehicles	8,499,504	3,105,000	5,394,504
Capital Work-In-Progress	46,080,200	27,512,412	18,567,788

Under the circumstances, the accuracy and completeness of the property plant and equipment balance of Kshs.789,389,065 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 Turkana University 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 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

1.0 Budgetary Control and Performance

The University College had a budget of Kshs.320,743,590 comprising of development vote budget of Kshs.127,500,000 and recurrent vote budget of Kshs.193,243,590 for the period ended 30 June, 2019. The University College spent the entire amount of Kshs.127,500,000 under development budget and spent a total of Kshs.207,522,963 under recurrent budget resulting in an over-expenditure of Kshs.14,279,373. However, the University Council minutes approving the 2018/2019 financial year budget and approval by the Cabinet Secretary were not provided for audit review.

2.0 Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2019. 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

1.0 Delayed Construction of Students Hostels

Included in property plant and equipment balance of Kshs.968,818,900 is an amount of Kshs.48,981,295 in respect of capital work in progress being payment for construction of two student hostels and associated works. As previously reported, the tender for the construction of the two student hostels and associated works was awarded to a construction company at contract sum of Kshs.114,794,238. The contract agreement was signed on 26 September, 2017.

The contractor requested for extension of the contract on 9 February, 2018 citing delay caused by delayed payment, ballast shortage and lack of a septic tank and the extension to 24 August, 2018 was approved.

However, review of procurement records for the works revealed the following anomalies:

- i. The evaluation report indicates that evaluation was done in August, 2017 and a report containing a summary of the evaluation process and comparison of tenders prepared. However, appointment letters of the Adhoc Evaluation Committee members were not provided for audit review.
- ii. According to the evaluation report, due diligence was carried out on three construction firms. However, the signed report was not provided for audit review as required by Section 83 of the Public Procurement and Assets Disposal Act, 2015 which states that an Evaluation Committee may, after tender evaluation, but prior to the award of the tender, conduct due diligence and present the report in writing to confirm and verify the qualifications of the tenderer who submitted the lowest evaluated responsive tender to be awarded the contract in accordance with this Act.
- iii. The notification and acceptance letters, tender documents, performance bond guarantee and tender award were not provided for audit review.

- iv. There was no evidence that the Management notified unsuccessful tenderers in writing as required by Section 87(3) of the Public Procurement and Asset Disposal Act, 2015.
- v. The contract signed on 26 September, 2017 did not have clause indicating the expected start date and the period to complete the works contrary to Section 129(2) of the Public Procurement and Assets Disposal Act, 2015.
- vi. Physical verification of the project carried out in December, 2020 revealed that, substructure works of the two hostels and basketball court, foundation walling and footing, roofing, ground slab and steel goal posts for basketball court and septic tank's excavation and blinding works are done. Further, furniture fittings, electrical works, superstructure works were on-going. However, the project was behind schedule by two (2) years. In addition, no evidence was provided to show that the performance bond was renewed.

Consequently, the objectives of the project have not been achieved and the University College may not get value for money from the expenditure of Kshs.48,981,295 incurred on the project.

2.0 Non-Compliance to One Third Basic Salary Rule

Review of the payroll for the month of June, 2019 revealed instances where the employees of the University College earned net salaries less than a third of their respective basic salaries. This is contrary to Section 19(3) of the Employment Act, 2007 which provides that the total amount of all deductions made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages.

Consequently, the University College Management was in breach of the law.

3.0 Lack of a Staff Establishment (Human Resource Management Plan)

During the year under review, the University College did not have an approved personnel establishment or human resource management plan that indicates the number of employees required under each category. It was therefore not possible to ascertain the optimum number of employees required to discharge services. This is contrary to the University College Human Resource Policies and Procedures Manual which states that all appointments should be made with the approval of the University Council and should be within the approved staff establishment.

The Management was therefore in breach of the policies.

4.0 Staff on Acting Positions Beyond Six Months

During the year under review, the University College appointed nine (9) 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.

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 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

1.0 Fixed Assets Register

The statement of financial position reflects a balance of Kshs.968,818,900 under property, plant and equipment which, as disclosed in Note 19 to the financial statements, comprised of land, buildings, motor vehicles, computer and accessories, office equipment, furniture and fittings, plant and equipment and library books. However, the assets register maintained lacks critical information such as cost of the assets, serial number and date of acquisition. Further, the assets were not tagged for ease of identification.

Consequently, the University College risks losing its assets due to weak internal controls in management of fixed assets.

2.0 Lack of an Internal Audit Function

The University College did not have an Internal Audit Function contrary to Section 73(1) of the Public Finance Management Act, 2012 which requires every national government entity to ensure that it has appropriate arrangements in place for conducting internal audit according to the guidelines of the Public Sector Accounting Standards Board (PSASB). Lack of an Internal Audit Function may lead to weak internal controls resulting in loss of public funds.

3.0 Cafeteria Maintenance and Stores Records

The University College operates a cafeteria which is housed in a prefab building which is in a dilapidated state. The cafeteria sells food to the students at a subsidized rate. However, the University College did not maintain a stores ledger indicating how food stuffs were received and issued out of stores. Further, the cashier had no safe box to keep the cash collections from the daily sales. In addition, the cafeteria sales decreased of from Kshs.4,234,326 reported in the previous year to Kshs.2,038,056, a variance of Kshs.2,196,270 or 52% decrease which was not explained.

Consequently, there is risk of loss of public funds through pilferage of stores. The cafeteria may also pose a health hazard to the students.

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

07 December, 2021