

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Bomet University College set out on pages 34 to 68, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, 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 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 Bomet 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 Public Finance Management Act, 2012 and the Universities Act, 2012.

Basis for Qualified Opinion

1. Discrepancies in the Annual Report and the Financial Statements

The financial statements contain the following anomalies:

- (i) The dates of appointment for the two Members of the Council featured at Page vi and on Page x have not been disclosed.
- (ii) The statement by the Chairperson of the Council at Page Xii is not signed.
- (iii) A report on performance of the regulatory and non-commercial enterprises owned by the University College in the financial year under review has not been included in the annual report.
- (iv) The report of the Council at Page xxxi indicates the financial results are as set out on Page 1, instead of Page 34 which is the first page of the financial statements.
- (v) Pagination for the financial statements is set from Page 34 instead of Page 1.
- (vi) The financial statements have not been signed by the Chairperson to the Council.
- (vii) The footnote to the financial statements indicates that the notes are set out on Pages 13 to 39 but these are at Pages 45 to 71.

- (viii) Note 6 to the financial statements on transfers from other government-gifts and services in kind reflects Exchequer grants brought forward for the year 2016/2017 instead of 2018/2019.
- (ix) The statements of financial position makes reference to non-current liabilities at a non-existent Note 21 to the financial statements.

In view these discrepancies, the financial statements contain incorrect information and do not conform to the format prescribed by the Public Sector Accounting Standard Board (PSASB).

2. Unexplained Variances in Financial Statements

Examination of balances reflected in the financial statements revealed the following inaccuracies:

Balances for the following items varied significantly from those reflected in the respective analyses provided for audit as indicated in the appendix attached on this report. As a result, the accuracy and validity of the balances could not be confirmed.

- (i) The statement of changes in net assets reflects a valuation of fixed assets balance totalling Kshs.1,133,859,123 whereas the audited financial statements for the prior year reflected a balance of Kshs.1,241,175,000 resulting to an unexplained variance of Kshs.107,315,877.
- (ii) The statement of changes in net assets reflects nil changes in capital reserves whereas Note 20 to the financial statements on property, plant and equipment reflects land and buildings valued at Kshs.4,000,000 and Kshs.61,740,000 totaling to Kshs.65,740,000 as having been transferred/adjusted during the year under review.
- (iii) The statement of financial performance reflects general expenses totalling Kshs.94,830,571, as further disclosed in Note 12 to the financial statements. However, a recast of the items included in the Note yields Kshs.95,430,570 resulting to unexplained variance of Kshs.599,999.
- (iv) The statement of financial position reflects trade and other payables from exchange transactions totalling Kshs.85,593,094, as further disclosed in Note 17 to the financial statements. However, a recast of the balances in the Note yields Kshs.144,044,644 resulting to unexplained variance of Kshs.58,451,550.
- (v) The statement of cash flows reflects cash and cash equivalents balance brought forward totalling Kshs.214,295,076 which differs with the audited closing balances totalling Kshs.9,922,000 as at 30 June, 2019 resulting in an unexplained balance of Kshs.204,373,076; and
- (vi) Note 12 to the financial statements discloses expenditure on core mandate totalling Kshs.38,193,712, but a recast of the items included in the balance yielded Kshs.38,442,112 resulting to casting error of Kshs.248,400;

In view of these errors and discrepancies, the accuracy and completeness of the cited balances could not be confirmed.

3.0 Council Members Allowances

The statement of financial performance reflects remuneration of directors' costs totalling Kshs.20,498,070 as detailed in Note 9 to the financial statements. Included in the balance is Kshs.19,454,070 paid out as allowances to Council members. However, detailed schedules indicating allowances paid to each member and the nature and purpose of the meetings attended were not provided for audit.

Consequently, the occurrence, accuracy and validity of the reported Council Members' allowances totalling Kshs.20,498,070 for the year ended 30 June, 2020 could not be confirmed.

4.0 General Expenses

The statement of financial performance reflects general expenses totalling Kshs.94,830,571 as further disclosed in Note 12 to the financial statements. Included in the balance is expenditure incurred on purchase of a four-wheel drive vehicle, procurement of an Enterprise Resource Planning (ERP) software system, construction of a research centre and supply of text books valued at Kshs.7,570,000, Kshs.8,862,160, Kshs.19,624,150 and Kshs.2,466,957 respectively. The items were of capital nature and therefore ought to have been capitalized and amortized over their useful lives in accordance with IPSAS 17.

Further, an outstanding imprest amounting to Kshs.600,000 for facilitation of cultural events which ought to have been classified as receivable was incorrectly accounted for as a general expense.

Consequently, the accuracy and validity of the reported general expenses totalling Kshs.94,830,571 for the year ended 30 June, 2020 could not be confirmed.

5.0 Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance totalling Kshs.12,971,173 as further disclosed in Note 14 to the financial statements. However, the University fees payment policy and analyses showing how long the debts had been outstanding were not provided for audit review.

Consequently, the accuracy and fair statement of the reported receivables from exchange transactions balance totalling Kshs.12,971,173 as at 30 June, 2020 could not be confirmed.

6.0 Property, Plant and Equipment

The statement of financial position reflects property plant and equipment balance totalling Kshs.1,735,285,752 as further disclosed in Note 20 to the financial statements. However, the following unsatisfactorily matters were noted in respect to the balance:

6.1 Land and Buildings Transfer/Adjustment

Included in the property, plant and equipment balance is the cost of land (KER/SIGOR/1369) valued at Kshs.4,000,000 measuring 8.4 acres and buildings built on it valued at Kshs.61,740,000 which are indicated as having been 'transferred /adjusted during the year under review. However, records on the nature and magnitude of the adjustments and their approval by the Council was not disclosed. As a result, their validity and measurement could not be confirmed.

6.2 Lack of Valuation Report

As reported in the previous year, furniture, plant and equipment and computer balances valued at Kshs.1,971,000, Kshs.6,477,026 and Kshs.1,647,989 respectively were transferred to the College when it ceased to be a constituent college of Moi University on 29 March, 2018. However, no valuation report was provided to validate the values assigned to the assets.

In view of these issues, the accuracy and completeness of the property plant and equipment balance totalling Kshs.1,735,285,752 as at 30 June, 2020 could not be confirmed.

7.0 Unsupported Liabilities

The statement of financial position reflects trade and other payables from exchange transactions balance totalling Kshs.85,593,094 as further disclosed in Note 17 to the financial statements. However, examination of items included in the balance revealed following unsatisfactory issues:

7.1 Accrued Payroll Liability

Included in the unsupported liabilities are accrued payroll expenses totalling Kshs.11,381,865 which in turn include accrued payroll expenses for staff transferred to Moi University totalling Kshs.2,137,940 and an Inter-Public Universities Council Consultative Forum (IPUCCF) expense totalling Kshs.155,859. However, analyses showing the nature of items incurred were not provided for audit.

7.2 Contingent Liability

The unsupported liabilities balance includes other payables-contingent liabilities totalling Kshs.4,980,675 which Management explained were incurred on supply of goods and services during construction of the University's temporary dining hall and kitchen in the year 2016. However, the balance was not supported with procurement records, delivery notes and invoices.

In view of these issues, the accuracy and fair statement of the reported trade and other payables from exchange transactions balances totalling Kshs.85,593,094 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Bomet 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. I have determined that there were no key audit matters to report in the year under review.

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted and actual revenues totalling Kshs.360,575,545 and Kshs.348,473,725 respectively resulting to a revenue shortfall of Kshs.12,101,820 or 3%. The revenue shortfall was within the allowable threshold of 10% of the budget.

The statement reflects budgeted and actual expenditure totalling Kshs360,575,545 and Kshs.335,842,888 respectively resulting in under-expenditure of Kshs.24,732,657 or 6.8 % of the budget also within the allowable variation limit.

Prior Year Issues

The audit report for the previous year (2018/19) raised several unsatisfactory issues relating to balances reflected in the financial statements, lawfulness and effectiveness in use of public resources, and effectiveness of internal control, risk management and governance.

The progress made by Management in resolving the issues shall be confirmed after they are discussed by the National Assembly.

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 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

1.0 Irregular Variation of Construction Contract

As previously reported, in 2017/18 financial year Moi University advertised the proposed construction of two library blocks, four (4) student hostels, two (2) lecture halls, two (2) dining/Kitchens and two (2) multipurpose halls for Bomet University College and Mama Ngina College Campus in Bomet and Kiambu Counties respectively. The University thereafter awarded the contract at Kshs.2.7 billion with the completion period set for 104 weeks. However, after the notification of the award was sent out and before the signing of the contract, the scope of work was scaled down to cover works at Bomet University College only, following the transfer of mentorship of Mama Ngina College Campus to Kenyatta University on 8 November, 2018.

However, the following anomalies were noted in regard to the change:

- i. As indicated, the initial tender entailed construction works at Bomet University College and Mama Ngina College Campus with both projects advertised as one tender. No plausible explanation was provided by Management for procuring the works under one tender in spite of their large scope and location in different Counties.
- ii. Upon transfer of the mentorship of Mama Ngina College Campus to Kenyatta University and after the tender award notification was sent to the winning bidder, Moi University proceeded to sign a revised contract for Bomet University College works with the original contractor at Kshs.1,391,984,209. There was no record indicating that the procedures for amendments to contracts spelt out in Section 47 of the Public Procurement and Disposal Act, 2015 were followed before the change was made.
- iii. The initial contract period of 104 weeks commencing 8 November, 2016 lapsed on 7 November, 2018 before the project was completed. An extension for a further 52 weeks was thereafter granted and expired on 7 November, 2019. Physical verification of the project carried out on 16 November, 2020, and review of project documents, indicated the following:
 - The tuition block was at 98% level of completion;
 - the library had stalled at 75% level of completion level as at November, 2020;
 - the multi-purpose hall was at 49% level of completion.
 - Construction of the two (2) hostels had commenced with mobilization of 5% of the contract value.

Total payments to the contractor amounted to Kshs.656,000,000 equivalent to 51% of the total contract price.

The University may have breached the law by failing to re-advertise the tender for the works relating to the College. In the absence of a new tender, it was not possible to confirm whether, the adjusted cost totalling Kshs.1,391,984,209 was competitive enough to result in value for money on public funds spent on the project.

2.0 Irregular Hire of Casual Workers

Expenditure records indicated that salary payments totalling Kshs.8,659,000 were made to fifty (50) casual workers hired to work in various departments. However, approval for the recruitment of the workers by the Council, requisitions for staff by the respective department, recruitment reports, and engagement letters issued to the workers were not presented for audit review. As a result, the validity of the recruitments 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 Overall 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 Risk Management Policy

Review of operational system in the College indicated that Management had not documented the College's risk management policy as required by Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015. The Regulation requires the Accounting Officer for a National Government entity to develop risk management strategies that include fraud prevention mechanisms and a system of risk management and internal control that builds robust business operations.

In the absence of a documented strategy, Management may not be able to objectively identify, measure and mitigate risks to the operations of the College.

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 overall governance.

In preparing the financial statements, Management is responsible for assessing the University's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the University, 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 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 with limited assurance as to 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 applicable 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 ability of the College 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 to cease to continue 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 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 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

11 February, 2022

Appendix

Unexplained Variances in Account Balances

Component		Note	Financial Statements	Support Schedule	Variance (Kshs)
1.	Supplementary Fund for CBA	6	11,878,248	11,381,865	496,383
2.	Employee Costs	8	156,010,055	145,164,123	10,845,932
3.	Repair and Maintenance	10	12,554,869	11,366,993	1,187,876
4.	General Expenses	12	94,830,571	93,971,192	859,379
5.	Trade and Other Payables	17	69,230,554	71,573,952	(2,343,398)
6.	Plant and Equipment	20	6,742,003	784,494.38	5,957,508.63
7.	Motor Vehicle	20	14,665,196	12,002,250	2,662,946.11
8.	Furniture	20	22,632,051	19,465,590	3,166,461.00
9.	Computers	20	4,881,832	2,722,679	2,159,153.00
Total			393,425,379	368,433,138	