

REPORT OF THE AUDITOR-GENERAL ON FRIENDS COLLEGE KAIMOSI FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Friends College Kaimosi set out on pages 1 to 29, which comprise of the statement of financial position as at 30 June, 2019, 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 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, because of the significance of matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly the financial position of the Friends College Kaimosi 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 do not comply with Technical and Vocational Education Training Act, 2013, the Public Finance Management Act, 2012, and the Education Act, 2012.

Basis for Adverse Opinion

1. Un-Confirmed Opening Balances u

As reported in 2017/2018, financial statements for the year ended 30 June, 2018 reflect comparative balances for 2016/2017. However, these balances were not confirmed as Management did not submit for audit financial statements for 2016/2017.

Under the circumstances, the accuracy and completeness of the opening balances as at 01 July 2018 could not be confirmed.

2. Unsupported changes in the Financial Statements

The journal entries supporting adjustments of balances in financial statements for; cash and cash equivalents from Kshs.15,029,805 to Kshs.15,256,903; student debtors (Note 20) from Kshs.29,927,074 to Kshs.236,083,433; intangible asset from Kshs.7,929,606 to Kshs.5,285,930; tuition fees (Note 7) from Kshs.135,774,899 to Kshs.129,882,391; and employee costs from Kshs.30,657,033 to Kshs.31,495,246 were not provided for audit. In addition, the amended trial balance was also not provided for audit.

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

3. Inconsistencies in the Notes to the Financial Statements

The statement of financial performance and statement of changes in net assets reflect total grants received amounting to Kshs.99,171,050. However, Note 26 to the financial statements on related party balances indicates Government grants received during the year of Kshs.3,547,250. In addition, the comparative figure of Kshs.30,980,000 in the Note is incorrect since the College received grants amounting to Kshs.24,500,000 in the financial year 2017/2018.

In the circumstances, the accuracy of the Note 26 could not be confirmed.

4. Unsupported Property, Plant and Equipment

The statement of financial position and as disclosed in Note 22 to the financial statements reflects property, plant and equipment balance of 504,867,505. The balance includes land and buildings net book values of Kshs.65,000,000 and Kshs.284,941,644 respectively. However, the fixed assets register did not indicate each parcel of land; building; the terms on which the assets are held, conveyance, address; area, dates of acquisition, and other pertinent Management details. In addition, ownership documents for the land was not provided for audit verification.

Consequently, the ownership and existence of land and buildings included in the property, plant and equipment could not be confirmed.

5. Unsupported Inventories Balance

The statement of financial position and as disclosed in Note 21 to the financial statements reflects inventories balance of Kshs.2,320,556. However, the stock sheets for the annual stock take carried out as at 30 June, 2019 for stationery Kshs.756,820; electrical and plumbing Kshs.250,300; building materials Kshs.200,500; and farm stores Kshs.40,958 were not provided.

In the circumstances, the accuracy of inventories balance of Kshs.2,320,556 could not be confirmed,

6. Unsupported Rental Revenue from Facilities and Equipment

The statement of financial position and as disclosed in Note 10 to the financial statements reflects rental revenue from facilities balance of Kshs.3,808,404 in respect of hire of vehicles and other facilities. However, the facilities hired out and the rates charged were not disclosed.

Consequently, the accuracy and validity of the amount collected balance of Kshs.3,808,404 could not be confirmed.

7. Employee Costs

Included in the employee costs balance of Kshs.31,495,246 is expenditure relating to domestic travel, accommodation and subsistence allowance balance of Kshs.2,678,178 for which no supporting documents were provided for audit. Further review of human resource records revealed that the College employed a total of sixty-three (63) new staff during the year. However, the following anomalies were noted:

- There was no staff establishment or a needs assessment for additional teaching staff.
- The available teaching positions were not advertised or communicated through internal memos or posters.
- The Board minutes for shortlisting, conducting job interviews and appointment of the teachers were not provided for audit.
- The College did not have a grading structure, salary scale and job description for the employees.
- At the time of audit, the teachers who were engaged for a year renewable contract were serving beyond the contract period without making applications for the renewal of the contracts.
- The statutory deductions in respect to the 63 officers were not remitted to NHIF, NSSF and KRA.

In the circumstances, the accuracy and validity employee costs of Kshs.31,495,246 could not be confirmed.

8. Unsupported Repairs and Maintenance of Motor Vehicles

The statement of financial performance reflects repairs and maintenance expenses amount of Kshs.7,337,442. The balance includes payments amounting to Kshs.1,607,780 that relates to servicing of motor vehicles. However, the mechanical inspection reports, invoices, service requisition forms, local service order (LSOs) were not attached to the payment vouchers.

Consequently, the validity of the expenditure of Kshs.1,607,780 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Friends College Kaimosi 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 adverse 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.

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. Unplanned Procurements

During the year under review, the Management spent an amount of Kshs.1,984,500 to purchase mattresses and decker beds. However, the purchases were not included in the procurement plan for the College. This is contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015 which require all procurement processes to be (a) within the approved budget of the procuring entity and be planned by the procuring entity concerned through an annual procurement plan.

Management was therefore in breach of the law.

2. Engagement of Casual Employees

Included in the employee costs figure of Kshs.31,495,246 is casual wages totalling to Kshs.2,559,933 with respect to eighteen (18) casual workers. However, the casuals were engaged for a period of two (2) consecutive years. This is contrary to Section 2 of the Employment Act that defines a casual as a person the terms of whose engagement provide for his payment at the end of each day and who is not engaged for a longer period than twenty-four hours at a time;

Consequently, the 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 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

Direct Expenditure of Revenue

Included in Note 8 under rendering of services, is Pay As You Eat Sales of Kshs.7,208,046. However, the sales amounting to Kshs.1,785,530 were banked intact resulting in unbanked revenue of Kshs.5,422,516. In addition, Note 9 under sale of goods indicates farm income of Kshs.1,070,326. However, a total of Kshs.154,001 was banked intact resulting in unbanked revenue of Kshs.916,325.

Failure to bank revenue intact is an indication of weak internal controls over cash and bank.

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 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 Board of Governors

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 College's ability to continue to sustain 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 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 Governors is responsible for overseeing the College's financial reporting process, reviewing the effectiveness of how the Management 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 noncompliance. 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 appropriate 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 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 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

14 February, 2022