

REPORT OF THE AUDITOR-GENERAL ON FRIENDS COLLEGE KAIMOSI (KAIMOSI COLLEGE OF RESEARCH AND TECHNOLOGY) FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Friends College Kaimosi (Kaimosi College of Research and Technology) set out on pages 1 to 32, which comprise of the statement of financial position as at 30 June, 2020, 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 the Friends College Kaimosi (Kaimosi College of Research and Technology) 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 Technical and Vocational Education and Training Act, 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in the Financial Statements

1.1 Misstatements of Revenue and Expenditure

The financial statements were amended, however, no supporting journal entries were provided in support of the amendments. The following balances were therefore not supported:

Items	Financial Statements Submitted on 24 September, 2020 Kshs.	Amended Financial Statements Kshs.	Variance Kshs.
Tuition Fees	123,767,394	111,572,394	(12,195,000)
PAYE Sales	0	2,845,111	2,845,111

Use of Goods and Services	88,773,215	86,318,837	(2,454,378)
Employee Costs	47,198,402	45,658,810	(1,539,592)
Repairs and Maintenance	6,451,296	4,584,527	(1,866,769)

The variances have not been explained.

1.2 Intangible Assets

The statement of financial position and as disclosed in Note 20 to the financial statements reflects a balance of Kshs.5,695,385 for intangible assets. However, a schedule provided for audit reflected a balance of Kshs.5,963,345 leading to an unexplained variance of Kshs.267,960.

Consequently, the validity, accuracy and completeness of the above balances could not be confirmed.

2.0 Unsupported Cash and Cash Equivalents

The statement of financial position and as disclosed in Note 17 to the financial statements reflects cash and cash equivalents balance of Kshs.65,604,287 which includes missing cash in hand balance of Kshs.1,133,234 which was supported by board of survey report. However, Management did not give any explanation on how the cash was lost.

Consequently, the validity, accuracy and completeness of cash in hand balance of Kshs.1,133,234 could not be confirmed.

3.0 Ebukanga Technical Training Institute

3.1 Unsupported Construction Works

The statement of financial position and as disclosed in Note 23 to the financial statements reflects property, plant and equipment balance of Kshs.513,764,452. The balance includes additions (construction work) at Ebukanga Technical Training Institute of Kshs.6,280,721 which further includes a contract for supply of plumbing materials and labour awarded to a contractor at a contract sum of Kshs.3,072,484.

An examination of the contract and payment records disclosed the following unsatisfactory matters:

- i. Evaluation minutes dated 9 December, 2019 indicate that quotations were received from three contractors for Kshs.3,072,484, Kshs.3,658,646 and Kshs.3,717,709 respectively. The 1st contractor was awarded the contract. However, a list of prequalified contractors showing the names of the evaluated contractors and regret letters to the unsuccessful bidders was not provided.

- ii. Regional works officer raised 3 certificates totalling Kshs.3,342,617 for supply of plumbing materials and labour awarded to the contractor which exceeded the contract sum of Kshs.3,072,484 by Kshs.270,133. In addition, the 3rd and final certificate of Kshs.324,654 was not supported by measured works.
- iii. Letter from Kisumu Regional Officer, State Department of Public Works dated 7 February, 2020 to the College Principal, stated that 'the defects noted during the handing over are hereby attached for the contractor to make good during the defects liability period. However, the details of the measured defects were not disclosed and it was not possible to establish whether the contractor rectified the said defects since no report about the same was provided.
- iv. There were no Project Management Committee reports or minutes.

Consequently, the propriety of Kshs.3,342,617 expenditure for the year ended 30 June, 2020 could not be confirmed.

3.2 Unsupported Supplies of Electrical Materials

The addition at Ebukanga Institute also includes payments for supplies of electrical materials of Kshs.1,009,100 made to a hardware company. However, records showing how the materials were received, inspected and issued out were not provided.

In the circumstances, it was not possible to determine the validity and accuracy of the expenditure of Kshs.1,009,100 for the year ended 30 June, 2020.

4.0 Construction of a Ramp and Library

The statement of financial position and as disclosed in Note 23 to the financial statements is property, plant and equipment balance of Kshs.513,764,452. The balance includes Work-In-Progress at Friends College Kaimosi College of Research and Technology (F.C.K) of Kshs.7,572,023 which also includes an amount of Kshs.3,187,200 spent on the construction of a ramp project and Kshs.2,943,008 on new library project.

In addition, included in Work-In-Progress is a balance of Kshs.2,943,008 for construction of a new library which includes an amount of Kshs.2,747,808 paid to a building contractor for the same project.

However, the following anomalies were observed;

- i. Review of bills of quantities (BQs) for construction of hostel and library revealed that an agency quoted 150mm thick bricks for upper walling at a rate of Kshs.700 per brick, while an engineering company that quoted a higher 150mm thick brick at a rate of Kshs.950 per brick won the contract. However, it was not clear why the contractor who quoted highly was considered for the works. Had the Agency been

awarded the contract, the College would have saved Kshs.250 per 150mm thick brick (Kshs.30,750 for 123 square meters).

- ii. Further, the company quoted to supply solid flush doors at Kshs.6,500, but on inspection it was noted that, the contractor supplied hollow flush doors which goes for a market rate of Kshs.2,500. Project physical verification show that plastering of some rooms and general works were not properly done.
- iii. Payments for both the ramp and the new library construction works were only supported by an architect certificates which were not accompanied by details of measured works countersigned by a quantity surveyor and it was not possible to determine if the payments matched the works done by the contractors.

Consequently, the accuracy and validity of Kshs.3,187,200 spent on ramp project and Kshs.2,943,008 spent on a new library project for the year ended 30 June, 2020 could not be ascertained.

5.0 Inaccuracies in the Statement of Changes in Net Assets

The statement of changes in net assets reflects a balance of Kshs.615,229,578. The balance includes fair value adjustment on retained earnings of Kshs.280,586,463. However, the Management has not supported the adjustment. It also, includes a balance of Kshs.48,346,066 in respect of transfer of depreciation/amortization from capital fund to retained earnings. The reason for this transfer was not explained.

Further, it is not clear how the surplus of Kshs.49,735,297 realized during the year under review is incorporated in the statement of changes in net assets and equity.

In the circumstances, it has not been possible to ascertain the validity, accuracy and completeness of the total net assets balance of Kshs.615,229,578 for the year ended 30 June, 2020.

6.0 Inaccuracies in the Statement of Cash Flows

The statement of cash flows under financing activities reflects a balance of Kshs.7,721,112 being net transfers between savings accounts. However, the composition of the balance, reasons for transfers and classification of items as a financing activity were not provided.

In the circumstances, the validity, accuracy and completeness of the statement of cash flow could not be confirmed.

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

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 Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees was one hundred and ninety-Seven (197) out of which one hundred and eighty (180) or 91% of the total number were members of the same/dominant ethnic community in the county. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, “all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community”.

The Management was therefore in breach of the law.

2.0 Outstanding Imprests

Included in the statement of financial position and disclosed under Note 18 to the financial statements is receivables from exchange transactions balance of Kshs.26,261,727 which also includes outstanding imprests of Kshs.462,331. However, the imprest schedule provided for audit revealed that imprests totalling Kshs.458,881 were to be surrendered by 30 April, 2020 which had elapsed. This was contrary to the Public Finance Management (Regulations), 2015, Section (93)(5) which requires imprest to be surrendered within seven (7) working days after returning to duty station. Management did not give any explanation on the failure to recover the outstanding imprests. 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, I confirm that, nothing 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 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 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the College'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 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 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 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 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 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 the 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 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

16 February, 2022