

# **REPORT OF THE AUDITOR-GENERAL ON KAIMOSI FRIENDS UNIVERSITY COLLEGE FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kaimosi Friends University College set out on pages 1 to 28, 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, 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 Kaimosi Friends 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, 2012 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **Inaccuracies in the Financial Statements**

- i. The statement of cash flows reflect a decrease of Kshs.28,053,000 under trade and other payables while the same component in the statement of financial position reflect a decrease of Kshs.14,368,000 resulting to an un-explained variance of Kshs.13,685,000.
- ii. The statement of changes in net assets reflects revenue reserves as at 30 June, 2020 of Kshs.74,398,000 which differs with the amount of Kshs.74,413,000 in the statement of financial position indicated as reserves carried forward. Further, the fair value adjustment of Kshs.15,000 reflected in the statement of net assets is not explained or supported by an accounting policy or framework.

Consequently, the accuracy of the financial statements for the year ended 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 the Kaimosi Friends 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 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

### Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total budgeted revenues of Kshs.610,789,000 and actual revenues of Kshs.576,301,000 resulting to a budget shortfall of Kshs.34,488,000 or 6%. The statement also reflects total budgeted expenditure of Kshs.610,789,000 and actual expenditure of Kshs.499,110,000 resulting to under absorption of Kshs.111,679,000 or 18% of the budget. Management explained that the under absorption of Kshs.111,679,000 was caused by cessation of learning activities due to the Covid 19 pandemic. However, the budget shortfall and the under-expenditure may have affected the planned activities of the University College.

## 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. Stalled Projects

The statement of financial position reflects a balance of Kshs.355,670,089 under work in progress which includes two (2) projects contracted at a total Kshs.28,524,810. The progress status of the two (2) projects was as detailed below:

Project	Start Date	Expected Completion Date	Contract Price (Kshs.)	Amount Paid to date (Kshs.)	Amount Paid During the year (Kshs.)	Reasons
Renovation of Existing Buildings & Associated Works	22 November, 2018	21 May, 2019	18,538,320	13,669,890	-	Contractor not on site.

LPG Installation	1 April, 2019	30 June, 2020	9,986,490	5,151,031	5,151,031	Resumption of work on the project depends on completion of renovations in the project above.
<b>Total</b>			<b>28,524,810</b>	<b>18,820,921</b>	<b>5,151,031</b>	

At the time of audit in December, 2020, the contractor was not on site and LPG installation had not started.

Under the circumstances, the value for money on the expenditure of Kshs.18,820,921 incurred on the project may not be realized.

## **2. Construction of a Tuition Block**

The construction of a tuition block was awarded to a contractor on 23 December, 2016 at a contract sum of Kshs.125,138,335. However, due to delayed completion, the contract was terminated and re-tendered on 8 April, 2020. At the time of termination, a total of Kshs.87,593,233 had been paid and the remaining works was estimated at Kshs.54,545,102. The re-tendered contract was enhanced to include other associated works and the total contract sum revised to Kshs.269,827,933. The work as at the time of the audit was at 29% complete and is ongoing. However, the delay in completion of the project has denied services to the intended users.

## **3. Staff Regional Diversity**

Examination of University College payroll for the month of June, 2020 revealed that one hundred and six (106) employees out of one hundred and forty-four (142) employees or 74% of the University's employees were from one ethnic community. This is contrary to Section 7 (1) and (2) of the National Cohesion and Integration Commission Act, 2008 which requires that all public establishments seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment should have more than one third of its staff from the same ethnic community.

Consequently, the Management was in breach of the law.

## **4. Investment of Excess Funds**

The statement of financial position reflects a balance of Kshs.151,317,000 in respect of cash and cash equivalents held in various current and savings accounts as at 30 June, 2020. No explanation was provided on why the funds were not being invested in short term bills or bonds as per The National Treasury Circulars No.10 of July, 1992 and No. 2 of February, 1998 which required all state corporations to invest surplus funds in treasury bills or bonds through the Central Bank of Kenya.

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 those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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 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.

Those charged with governance are responsible for overseeing the University College`s financial reporting process, reviewing the effectiveness of how the entity 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 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 University 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 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 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**

**28 January, 2022**