**REPORT OF THE AUDITOR-GENERAL ON KENYA MEDICAL TRAINING COLLEGE FOR THE YEAR ENDED 30 JUNE, 2020**

REPORT ON THE FINANCIAL STATEMENTS

## Qualified Opinion

I have audited the accompanying financial statements of Kenya Medical Training College set out on pages 38 to 64, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in equity, 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 Kenya Medical Training 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 Kenya Medical Training College Act and the Public Finance Management Act, 2012.

## Basis for Qualified Opinion

### 1.0 Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents of Kshs.536,976,120 as at 30 June, 2020 which as disclosed at Note 32 to the financial statements included cash at bank balances of Kshs.536,060,228. However, the bank reconciliation statements reflected payments in bank statements not recorded in cashbooks totalling to Kshs.910,482. No satisfactory explanation was provided as to why the cash book had not been updated accordingly. Further, the statement reflected receipts in cashbook not in the bank statements totalling to Kshs.10,265,570. No satisfactory explanation was provided as to why the receipts were not banked.

In addition, the reported bank balance of Kshs.536,060,228 excluded an amount of Kshs.547,997 described as reversed cheques. However, the cheques had not been reversed in the cashbooks as indicated.

It was also noted that the Corporation centralized its revenue collection for tuition fees into two (2) bank accounts held at the headquarters, However, the bank reconciliations for the two (2) bank accounts were performed twice during the year. This is contrary to Regulation 90 of the Public Finance Management (National Government) Regulations, 2015 which requires Accounting Officers to ensure bank accounts reconciliations are completed for each bank account held by that accounting officer, every month and submit a bank reconciliation statement not later than the 10th of the subsequent month to the National Treasury with a copy to the Auditor-General. Failure to perform monthly bank reconciliations may hinder timely detection of errors including fraud.

Consequently, the validity and accuracy of cash and cash equivalents balance of Kshs.536,976,120 as at 30 June, 2020 could not be confirmed.

### 2.0 Receivables from Non-Exchange Transactions

The statement of financial position reflected receivables from non-exchange transactions balance of Kshs.519,812,180 as at 30 June, 2020. As previously reported, the balance included Kshs.19,812,181 brought forward from prior years and due from the Ministry of Health. Although the balance was recommended for write-off by the Board in February, 2007, approval from the Parent Ministry had not been obtained by 30 June, 2020.

### 3.0 Receivables from Exchange Transactions

### 3.1 Rent arrears

As disclosed under Note 33 to the financial statements, the receivables from exchange transactions balance of Kshs.864,601,096 included a rent receivables balance of Kshs.76,677,780 of which an amount of Kshs.70,263,040 was in respect of accumulated rent arrears due from the University of Nairobi for ninety-six (96) rooms occupied by the University's medical students. However, the agreement between the College and the University regarding accommodation of the students was not provided for audit. In addition, no satisfactory explanation was provided on how the arrears accumulated to Kshs.70,263,040 as at 30 June, 2020.

In addition, the receivables from exchange transactions balance includes rent amounting to Kshs.2,200,000 due for institutional houses that had been allocated to persons not working for the College. Further, rent arrears amounting to Kshs.440,000 in respect of a tenant who was evicted in 2015 had not been recovered as at 30 June, 2020.

Also, an amount of Kshs.2,157,500 was excluded from the rent arrears balance of Kshs.70,263,040.

### 3.2 Outstanding fees

The receivables from exchange transactions balance includes outstanding fees balance of Kshs.873,727,770 out of which Kshs.70,737,440 had been outstanding for more than one year. Further, the outstanding fees balance of Kshs.873,727,770 included outstanding fees of Kshs.10,362,171 for Kuria Campus of which a balance Kshs.7,102,021 was in respect of money collected in cash directly from students irregularly and neither reflected in the students' accounts nor banked.

### 3.3 Kenyatta National Hospital Students

The receivables from exchange transactions balance of Kshs.864,601,096 included Kshs.21,831,155 due from Kenyatta National Hospital which, although recommended for write-off by the Board in February, 2007, approval had not been obtained from the parent Ministry by 30 June, 2020.

In the circumstances, the accuracy, completeness and full recoverability of total receivables from exchange transactions balance of Kshs.864,601,096 could not be confirmed.

## 4.0 Property, Plant and Equipment

### 4.1 Lack of Land Ownership Documents and Unvalued Land Parcels

The statement of financial position reflects property, plant and equipment with a net book value of Kshs.7,532,433,366 as at 30 June, 2020 which as disclosed at Note 35 to the financial statements, included Kshs.1,165,920,000 for land. However, as previously reported, title documents for eighteen (18) parcels of land in various locations across the country and valued at Kshs.333,385,000 were not provided for audit.

Further, the land on which forty-five (45) campuses were built, had not been valued or included in the reported balance for property, plant and equipment.

### 4.2 Land Valuation

As reflected at Note 35 to the financial statements, the reported property plant and equipment balance of Kshs.1,165,920,000 as at 30 June, 2020, was based on a valuation done in 2005. The Company had therefore, not valued its land in the last fourteen (14) years.

### 4.3 Lack of Fixed Assets Register

The College did not maintain an updated register of fixed assets at the headquarters and the campuses indicating the details and pertinent information as required under Regulation 143 of Public Finance Management (National Government) Regulations, 2015. The assets and liabilities register for the year ended 30 June, 2020 was also not submitted to the National Treasury as required by the National Treasury Circular No.23/20 dated 14 October, 2020 which provides that the Assets and Liabilities Registers as at 30 June, 2020 should be submitted not later than 31 October, 2020.

### 4.4 Construction of Tuition and Laboratory Building at Kapkatet Campus

The work in progress balance of Kshs.1,144,998,723 reflected at Note 35 to the financial statements, includes the Project for construction of tuition and laboratory building at Kapkatet Campus which was designed and awarded to a contractor at a contract sum of Kshs.37,797,792 on 11 October, 2018, for a contract period of 24 weeks ending April, 2019. However, audit site inspection in February, 2021 revealed that, the Project had stalled, the contractor had abandoned the construction site and the construction works had started to deteriorate due to the effects of weather. The amount certified as at the time of the audit in January, 2021, was Kshs.25,465,325 or 67%. No plausible explanation was provided as to why liquidated damages had not been recovered from the contractor or the contract terminated lawfully.

### 4.5 Construction of Classrooms and Administration Block for Tana River Campus

The work in progress balance of Kshs.1,144,998,723 included the contract for proposed classrooms and administration block for Tana River Campus awarded to a contractor on 8 July, 2019 at a contract sum of Kshs.26,848,974. The contractor took site possession on 16 March, 2020 for a contract period of 32 weeks, with a completion date of 17 December, 2020. A total of Kshs.4,390,020 had been certified as per the records provided. However, audit inspection of the Project in February 2021 revealed that the contractor had abandoned the construction site after just excavation of trenches at the foundation level. It could therefore not be confirmed whether the Project would be completed as planned.

### 4.6 Conversion of Mtwapa Health Centre to a Rural Health Training Facility

The work in progress balance of Kshs.1,144,998,723 includes works for conversion of Mtwapa Health Centre to a Rural Health Training Facility. The contact was awarded to a contractor at a contract sum of Kshs.42,133,570 for a contract period of thirty-six (36) weeks commencing on 19 April, 2018 and an envisaged completion date of 27 December, 2018. As at the time of the audit in February, 2021, 82% of the contract amount had been certified. However, works were abandoned by the contractor after Kshs.34,370,695 had been paid. Evidence of Management action to avert possible loss of public funds was not provided.

In the circumstances, it has not been possible to confirm the ownership, accuracy, propriety and completeness of the property, plant and equipment balance of Kshs.7,532,433,366 as at 30 June, 2020.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Medical Training 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 judgement, were of most significance in the audit of the financial statements of the current year. 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 Quality of Training

As at 30 June, 2020, the College had sixty-seven (67) campuses spread across the country with a student population of 34,918 and total number of lecturers including principals, dean of students and heads of departments of 1,080. This translates to a lecturer student ratio of 1:32 which is, as previously reported, below the International Standards on Quality Training of Health Workers which places the lecturer student ratio during classroom teaching at 1:10. Therefore, the College had a shortfall of about 2,411 lecturers to attain the desired quality training level.

No evidence of the strategies put in place by the Management to bridge the gap between the current lecturer student ratio and the recommended optimum ratio.

### 2.0 Opening of New Constituent Colleges

As previously reported, the College opened twenty-two (22) new constituent colleges during the financial years 2013/2014, 2014/2015, 2015/2016 and 2016/2017. The new colleges are Makueni, Vihiga, Chwele, Kapenguria, Migori, Bomet, Kitale, Nyandarua, Kuria, Lake Victoria, Chuka, Gatundu, Iten, Kaptumo, Makindu, Molo, Mosoriot, Mwingi, Nyahururu, Rachuonyo, Rera and Othaya. However, the expansion was contrary to Sections 1 and 3 of Part 4.0 of the Expansion and Policy Guidelines which provide that new infrastructure should only be developed after concept paper and proposal in compliance with the respective Kenya Medical Training College strategic plan are prepared and approved, and source of financing identified.

In addition, the Colleges were not budgeted for in the years they were established and the total expenditure of Kshs.180,997,555 incurred on the same was not included in the annual estimates for the respective years. This is contrary to Section 12 of the State Corporations Act which provides that no corporation shall without the prior approval in writing of the Minister and the Treasury incur any expenditure for which provision has not been made in annual estimates.

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 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 Directors**

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.

In preparing the financial statements, Management is responsible for assessing the College's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern 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 College's activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner.

The Board of Directors is responsible for overseeing the College's financial reporting process, reviewing the effectiveness of how the 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 review 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 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 College's ability 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 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**
**<u>AUDITOR-GENERAL</u>**

**Nairobi**

**11 February, 2022**