

REPORT OF THE AUDITOR-GENERAL ON GARISSA UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Garissa University set out on pages 1 to 36, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and 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 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 Garissa University as at 30 June 2018, 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. Financial Performance

The University's current liabilities amounted to Kshs.128,683,481 as at 30 June 2018 while the current assets stood at Kshs.62,942,791 thus resulting in a negative working capital of Kshs.65,740,690. In addition, the statement of financial performance reflects a deficit of Kshs.64,754,556.

In the circumstances, the University's ability to continue as a going concern is dependent on Government and creditors support.

2. Trade and Other Payables from Exchange Transactions

The trade and other payables from exchange transactions balance reflects Kshs.78,914,000 as at 30 June 2018. However, the schedule provided for audit review did not indicate the ageing analysis and therefore it was not possible to ascertain how long the payables have been outstanding.

In view of the foregoing, it has not been possible to confirm that trade and other payables from exchange transactions balance of Kshs.78,914,000 as at 30 June 2018 is fairly stated.

3. Property, Plant and Equipment

Included in the property, plant and equipment balance of Kshs.845,388,000 is Kshs.35,000,000 for land on which the University stands. However, the land had no title deed and only had allotment letters as evidence of ownership. No explanation was provided as to why the University had not registered the parcel of land in its legal name despite having been issued with charter as a full-fledged University in 2017. Land without valid ownership documents may lead to illegal occupation and thus loss of public funds.

In the circumstances, the ownership of the property, plant and equipment balance of Kshs.35,000,000 could not be confirmed.

4. Irregular Payment of Subsistence Allowances

Included in the subsistence and travelling expenditure of Kshs.9,463,000 is Kshs.1,842,660 being subsistence allowances for the University's staff. However, it was observed that the relevant documents to support the expenditure such as mode of transport were not availed for audit review while mileage allowances were paid without copies of logbooks. Further, schedules supporting the payments were not signed by the officers to confirm receipt of monies.

In the circumstances, the probity of the expenditure of Kshs.1,842,660 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Garissa University in accordance with ISSAI 30 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 of the current year under review. Except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that there were no Key Audit Matters to report in the year under review.

Other Matter

1. Budget Performance

Statement of comparison of budget and actual amounts for the year ended 30 June 2018 reviewed the following position:

	Original Budget Kshs.	Adjustments Kshs.	Final Budget Kshs.	Actual on Comparable Basis Kshs.	Performance Difference	Percentage Rate
Revenue						

Grants & Capitations - Recurrent	237,950,000	37,424,000	275,374,000	275,374,000	(0)	0%
Grants & Capitations - Capital	246,228,000	(188,643,000)	57,585,000	57,585,000	(0)	0%
Tuition & Related charges	110,830,000	-	110,840,000	101,943,000	(8,887,000)	-9%(a)
Other Income	13,594,000	-	13,594,000	11,439,000	(2,155,000)	-19%(b)
Total Income	608,601,000	(151,219,000)	457,382,000	446,340,000	(11,042,000)	-2%
Expenses						
Employee Costs	288,818,000	19,123,000	307,941,000	305,575,000	2,367,000	1%
Operational, Academic & Administrative	99,007,000	20,406,000	119,413,000	120,618,000	(1,205,000)	-1%
Repairs & maintenance cost	1,661,000	0	1,661,000	1,661,000	0	0%
Board Expenses	16,310,000	(5,926,000)	10,384,000	10,254,000	130,000	1%
Capital Expenditure	246,228,000	(188,643,000)	57,585,000	57,585,000	0	0%
Total Expenditure	652,024,000	(155,040,000)	496,985,000	495,693,000	1,292,000	0%
Surplus/Deficit	(43,423,000)	3,820,000	(39,603,000)	(49,352,000)	(9,750,000)	(20%)

Upon analysis of the budget, the following observations were made:

- Amounts anticipated from the exchequer both recurrent and development were below the target.
- There was an under collection of tuition fee.

Underfunding and under collection of revenue may have adversely affected implementation of projects thus hampering in realizing the University's strategic plan. On expenses, the University spent more than the amount budgeted, this can be attributed to factors like the University utilizing Kshs.27,43,626 of retention fund to pay part time lectures and for other operating costs.

The University therefore did not adhere to budgetary policies.

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 matter described in the Basis for Conclusion on Compliance with 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

Employee Costs

Note 11 to the financial statements reflects that the University spent Kshs.305,575,000 or 78% of its revenue on compensation of employees as at 30 June 2018 contrary to Section 26(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which states that National Government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35% of the National Government's equitable share of the revenue raised. The management was thus 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 Report 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

Lack of Approved Internal Audit Charter

A review of the operations of the internal audit department revealed that the University has internal audit unit in place. However, it was noted that the Internal Audit Unit operates without approved Internal Audit Charter which is currently in draft form. Lack of approved Internal Audit Charter may impair the operations of the Internal Audit department.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained 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 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 University's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting, unless the management either intends to liquidate the University or to cease operations, or no realistic alternative but to do so.

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 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 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 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 University's ability to continue as a going concern. 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 University 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 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

08 May 2019