

REPORT OF THE AUDITOR-GENERAL ON GARISSA UNIVERSITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Garissa University set out on pages 1 to 29, which comprise of the statement of financial position as at 30 June, 2019, 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 effects of the matter 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 Garissa University 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 comply with the Universities Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Undisclosed Material Threat to Going Concern

The statement of financial position reflects current liabilities balance of Kshs.195,594,000 and current assets balance of Kshs.119,476,000 resulting to a negative working capital of Kshs.76,118,000. The University is not likely to meet its financial obligations and was unable to remit PAYE, pensions and pending bills amounting to Kshs.54,374,221, Kshs.10,706,517 and Kshs.126,529,732 respectively to the respective beneficiaries thereby risking fines and penalties. The University is therefore, experiencing financial difficulties.

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

2.0 Unsupported Trade and Other Receivables

As disclosed under Note 16 to the financial statements, the statement of financial position reflects trade and other receivables balance of Kshs.26,087,000 which includes student outstanding fees and outstanding imprest of Kshs.26,043,000 and Kshs.45,000 respectively. However, the schedule provided for audit review did not indicate the ageing analysis. It was therefore not possible to ascertain how long the payables have been outstanding. An analysis of the outstanding students fee balance of Kshs.26,043,000 revealed that there are huge balances for individual students equivalent to four (4) semesters fee, an indication that students are taking exams without clearing outstanding fees contrary to the University Fees Payment Policy. Further, the outstanding imprest of Kshs.45,000 was not reflected in any of the University's books of accounts.

In the circumstances, it has not been possible to confirm the accuracy, completeness and validity of trade and other receivables from non-exchange transactions balance of Kshs.26,087,000 reflected in the statement of financial position as at 30 June, 2019.

3.0 Lack of Ownership Documents

As reported in the previous report of 2017/2018, included in the property, plant and equipment balance of Kshs.1,051,681,000 is Kshs.35,000,000 relating to the land on which the University is situated. However, the land has no title deed but only allotment letters as evidence of ownership.

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

4.0 Unsupported Balances

As disclosed under Notes 19 and 20 to the financial statements, the statement of financial position reflects total current liabilities balance of Kshs.195,594,000. The balance includes trade and other payables from exchange transactions and refundable deposits balance of Kshs.191,610,000 and Kshs.3,984,000, respectively. However, the Management did not provide a comprehensive creditor's ledger, supporting documents like invoices and creditors statements for audit review.

Further, the balance includes an amount of Kshs.3,984,000 relating to refundable deposits from customers made up of Kshs.372,000, Kshs.1,096,000 and Kshs.2,516,000 for caution, retention and prepaid fees respectively. A review of the records revealed that the University has no separate bank account for retention and caution monies owed while there were no ledgers for retentions and recoveries, to confirm the authenticity of the retention balance of Kshs.1,096,000.

In addition, the University paid a firm Kshs.3,201,503 as retention money without the requisite documents to support the processing of the payments.

Under the circumstances, the accuracy, completeness and validity of liabilities balance of Kshs.195,594,000 reflected in the statement of financial position as at 30 June, 2019 could not be ascertained.

5.0 Unsupported Prior Year Adjustment

The statement of changes in net assets indicated an amount of Kshs.697,034,000. Included in the balance is prior year adjustments of Kshs.23,513,000 which had reduced the capital reserve. However, the same was not reflected in the 2017/2018 financial statements and was not supported with journal entries.

Under the circumstances, the accuracy, validity and completeness of the capital reserve balance of Kshs.697,034,000 reflected in the statement of changes in net assets for the year ended 30 June, 2019 could not be ascertained.

6.0 Compensation of Employees

As disclosed under Note 10 to the financial statements, the statement of financial performance reflects employee cost balance of Kshs.298,487,000. The following observations were made:

6.1 Misstatement of Employee Costs

The balance includes payment of several allowances amounting to Kshs.116,017,000. However, the supporting payroll data for the same revealed a balance of Kshs.102,425,770 resulting to an unexplained and unreconciled variance of Kshs.14,098,230 as detailed in the table below: -

Employee Cost	Financial Statement Balance Kshs.	Payroll System Kshs.	Variance Kshs.
House Allowance	64,431,000	64,083,967	347,033
Car and Commuter Allowance	20,336,000	6,942,000	13,394,000
Responsibility Allowance	5,524,000	5,359,139	164,861
Hardship Allowance	26,233,000	26,040,664	192,336
Total	116,524,000	102,425,770	14,098,230

Consequently, the accuracy and completeness of employee costs amounting to Kshs.116,524,000 for the year ended 30 June, 2019 could not be confirmed.

6.2 Unsupported Basic Salary

The balance includes basic salary of Kshs.122,820,000. However, an analysis of the payroll extracts availed for audit review revealed that the actual amount spent on basic pay was Kshs.121,936,605.81 resulting to an unexplained and unreconciled variance of Kshs.883,395. Further, the University employed fifteen (15) employees on various capacities including tutorial fellows, assistant lecturers, senior accountant assistants, a cook, a gardener and a plumber. However, the Management did not avail supporting documents such as advertisement, confirmation of the employees under probation, and certified copies of personal documents for audit review.

Consequently, the accuracy and completeness of basic salary amounting to Kshs.122,820,000 for the year ended 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Garissa University 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 to report in the year under review.

Other Matter

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,094,363,171 and Kshs.736,215,000 respectively resulting to an under-funding of Kshs.358,148,171 or 33% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.1,100,713,000 and Kshs.745,344,000 respectively, resulting to an under-absorption of Kshs.455,370,000 or 41% of the budget. Further, the statement reflects an expenditure balance of Kshs.109,786,000 on operational, academic and administrative costs which differ with the statement of financial performance balance of Kshs.116,056,000 resulting to an unreconciled variance of Kshs.6,270,000.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2.0 Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/12/1/44 of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness 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

Non-Remittance of Statutory Deductions

Audit review of the expenditure and other supporting documents relating to PAYE revealed that, during the financial year under review, the University made statutory deductions relating to PAYE amounting to Kshs.67,256,036 from the staff members. However, the same was not remitted to KRA within the statutory timeline hence a penalty of Kshs.2,758,163 was levied pursuant to Section 37 of Income Tax Act, Cap 470. Further, the University had not also remitted pension amounting to Kshs.10,706,517.

In view of the foregoing, the University continued to incur additional liabilities which are avoidable leading to wastefulness in the use of public resources.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit so as 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

1.0 Weak Internal Controls

Audit review of the expenditure for the University revealed weaknesses in enforcement of internal controls designed for ensuring effective administration of public funds. The University lacked strong internal controls for reporting and sound financial management. In addition, proper ledgers that comprise of general ledger, payables ledger and receivables ledger were not kept either in manual or electronic form despite having installed an ERP system at a cost of Kshs.16,894,603.

In the absence primary records such as the ledgers, the internal control is weak in ensuring sound financial management.

2.0 Late Approval of the Budget

A review of the budget process of the University revealed that the University carried out three revisions to its original budget in the months of August, 2018, January, 2019 and June, 2019 which were all approved on the same day by the University Council, on 17 July, 2019. No reason was provided why the University Council had not approved the supplementary budget in good time.

In view of the foregoing, the University was therefore in breach of the Law

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 University Council

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 University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of intention to liquidate the University 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 University Council is responsible for overseeing the University's financial reporting process, reviewing the effectiveness of how the University 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 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 as a going concern or 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 University 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

21 July, 2021