

# **REPORT OF THE AUDITOR-GENERAL ON HIGHER EDUCATION LOANS BOARD FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Higher Education Loans Board set out on pages 1 to 32, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparative 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 Higher Education Loans Board as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Standards (Accrual Basis), and comply with the Higher Education Loans Board Act, Cap. 213 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Emphasis of Matter sections of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **1. Land**

As previously reported, the property, plant and equipment balance of Kshs.838,860,069 as at 30 June 2017, includes a parcel of land LR No. 209/13515 measuring 0.6 hectares situated at Upper Hill area, Nairobi, recorded at a cost of Kshs.44,588,742. Although the ownership documents indicate that the parcel of Land belongs to the Board, a discrepancy exists between the deed plan at the then Ministry of Land Housing and Urban Development and the actual position on the ground which shows that the Board's perimeter wall on one side was put up in a straight line while the deed plan has a curve on that particular side. Further, the Kenya Railways Corporation claims that the plot was illegally exercised from the Corporation's Land, by the then Commissioner of Lands. Although the management has explained that the matter has since been taken up by the parent Ministry, and a case is pending before a court of law, no resolution or outcome had been attained as at the date of this report.

Consequently, it has not been possible to confirm the accuracy of the property, plant and equipment balance of Kshs.838,860,069 or ownership of Land LR No.209/13515 recorded at a cost of Kshs.44,588,742 as at 30 June 2017.

## **2. Cash and Bank Balance**

As disclosed in note 17 to the financial statements, the cash and bank balances amounting to Kshs.1,003,793,930 include balance of Kshs.303,960,075 held in a financial institution placed under receivership in April 2016 and later taken over by another financial institution. Further Note 18 to the financial statements indicates that short term investments totalling Kshs.100,000,000 were also held in the same financial institution. As a result the Board could not access its own funds totalling Kshs.403,960,075 as at the date of this report.

In the circumstances, it has not been possible to ascertain the extent of impairment of the cash bank balance of Kshs.405,960,075 and to confirm that the cash and bank balances amounting to Kshs.1,003,793,930 and short term investment balance of Kshs.2,487,897,641 are fairly stated as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Higher Education Loans Board 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.

### **Emphasis of Matter**

#### **Matured Loans to Students**

The statement of financial position as at 30 June 2017 reflects matured students loans balance of Kshs.24,178,564,333 which is net of matured loans balance of Kshs.25,451,120,350 and provision for bad and doubtful debts of Kshs.1,272,556,018. The balance of Kshs.24,176,564,333 includes loans totalling Kshs.8,274,381,332 which represents matured students loans which have been outstanding over the stipulated period of 10 years. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and do not provide a separate on these matters.

#### **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. Except the matters described in the Basis for Qualified Opinion and Emphasis of Matter sections of my report, there were no Key Audit Matters to report in the year under review

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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 such 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.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue to sustain 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 Board or to cease operations, or have 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.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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 of Kenya. 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 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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Board's 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 Board'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 Board 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 Board 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**

**19 April 2018**