

REPORT OF THE AUDITOR-GENERAL ON JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Jomo Kenyatta University of Agriculture and Technology set out on pages 1 to 40, 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 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 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 the Jomo Kenyatta University of Agriculture and Technology 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. Undisclosed Material Uncertainty to Going Concern

The statement of financial performance reflects a deficit of Kshs.57,728,576 (2018: Deficit of Kshs.581,575,113). The statement of financial position reflects current liabilities amounting to Kshs.6,406,125,048 which exceeds the current assets amount of Kshs.4,263,668,177 resulting in a negative working capital of Kshs.2,142,456,871. Consequently, the University may not meet its obligations when they fall due. In particular, Management has not remitted pension deductions and employer pension contributions totalling to Kshs.1,402,159,179 and Pay as You Earn (PAYE) tax amounting to Kshs.1,413,710,612 deducted from employees' salaries and due to the Kenya Revenue Authority (KRA) as at 30 June, 2019. This is contrary to Section (4) of the Employment Act Cap 226 of 2007 and the income tax (PAYE) rules which provides that before the tenth day of every month, all amounts of tax which the employer has deducted during that month be remitted to the Authority.

Further, Management has not paid audit fees amounting to Kshs.17,400,000 to the Office of the Auditor-General for the audit services offered in the last over four (4) years.

In the circumstances, the University is technically insolvent and cannot meet its short-term obligations as and when they fall due. Management has not disclosed this fact in the financial statements.

2. Unsupported Trade and Other Receivables

As disclosed under Note 10 to the financial statements, the statement of financial position reflects trade and other receivables balance of Kshs.3,847,208,334. The balance includes long outstanding receivables totalling Kshs.175,578,258 and Kshs.5,155,533 relating to sundry debtors and loan defaulters respectively. However, details and analysis of those advances to the loanees were not availed for audit review.

In the circumstances, the accuracy, and completeness of trade and other receivables of Kshs.3,847,208,334 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

3. Inaccuracy of Trade and Other Payables

As disclosed under Note 12 to the financial statements, the statement of financial position reflects trade and other payables of Kshs.5,408,307,975. Included in the balance is student fee prepayments of Kshs.731,840,576. A review, on a sample basis, of the student fee prepayments schedule and the individual student fee statements revealed that there existed an unreconciled variance of Kshs.10,625,361 between the two sets of records.

In the circumstances, the accuracy, completeness and validity of trade and other payables balance of Kshs.5,408,307,975 reflected in the statement of financial position as at 30 June, 2019 could not be ascertained.

4. Unsupported Payments to Former Staff

As disclosed under Note 5(i) to the financial statements, the statement of financial performance reflects personal emoluments balance of Kshs.4,713,998,678. The balance includes salary payments totalling Kshs.3,899,950 paid to four (4) officers who had already exited the University.

No satisfactory explanation was given why these former officers were retained in the payroll, why the amount was paid or how the amounts of overpayments will be recovered.

In the circumstances, the propriety of Kshs.3,899,950 for the year ended 30 June, 2019 paid to staff who had exited the University could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Jomo Kenyatta University of Agriculture and Technology 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 matters to report in the year under review.

Other Matter

1.0 Budget Control and Performance

The statement of comparative budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.8,908,698,366 and Kshs.7,811,804,354 respectively resulting to an under-funding of Kshs.1,096,894,012 or 12% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.8,659,201,379 and Kshs.7,869,532,930 respectively resulting to an under-funding of Kshs.789,668,449 or 9 % of the budget. Management has attributed the underfunding to the restructuring of the education sector in the last three (3) years.

The under-funding has affected the planned activities and may have impacted negatively on service delivery to the public.

2.0 Prior Year Matters

In the audit report of the previous year, several paragraphs were raised. However, the Management has not disclosed prior year audit recommendations in the annual reports and how it has resolved them contrary to the provisions of the Public Sector Accounting Standards Board (PSASB) template and The National Treasury's Circular Ref: PSASB/1/12 Vol.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 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 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. Compliance with National Cohesion and Integration Act, 2008

Review of staff ethnicity data indicated that the University had 45% of its staff members from one ethnic community. This is in contravention of Section 7 (2) of the National Cohesion and Integration Act, 2008 which requires that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstances, the Management is in breach of the law.

2. Delay in Project Completion

2.1. Erection of Perimeter Wall

As previously reported in 2017/2018, under Note 8 to the financial statements, is work-in-progress balance of Kshs.866,143,822. Included in this balance is an expenditure amounting to Kshs.50,698,799 relating to a contract entered into in 2012 for the proposed erection of a perimeter fence along the road leading to the University main entrance at Juja at a contract sum of Kshs.68,836,283. A review of the project status and physical verification of the project in January, 2020 during the audit revealed that the fence stalled at foundation level yet Kshs.50,698,799 or approximately 73.6% of the contract sum had been paid at the time of the audit.

2.2. Construction of a New Administration Block

Included in the work in progress balance of Kshs.866,143,822 reflected under Note 8 to the financial statements is Kshs.20,792,815 being additional costs on the construction of the new administration block. Examination of records revealed that on 21 January, 2013, Management entered into the contract for the construction of an administration block for a period of seventy-two (72) weeks at a contract sum of Kshs.285,919,713. However, the contract was extended from 21 June, 2014 to 6 December, 2014 while the contract sum was varied to Kshs.348,366,919 representing an increase of Kshs.62,447,206 or 22% of the original contract sum.

By 30 June, 2019, the administration block had not been completed and the value of works reflected under work in progress was Kshs.236,479,695. However, Management did not provide, for audit review, the extension of contract period and approval of the variations that exceeded the 15% allowable level of the then applicable Public Procurement and Disposal Act, 2005. Further, no explanation has been availed by Management on how and when it intends to complete the building and put it into the intended use.

2.3. Construction of Water Bottling Plant

Included in the property, plant and equipment balance of Kshs 9,451,295,072 reflected under Note 8 to the financial statements is the proposed water bottling project in which records available indicate that Kshs.15,334,599 has been spent on the project. However, verification of the project in January, 2020 revealed that the project is not in use and the plant has never been functional despite the fact that Kshs.15,334,599 has already been spent towards operationalizing the project. Management has not given satisfactory explanation on the lack of operationalization of this project.

In the circumstances, it has not been possible to confirm whether the amount spent on the three projects is a proper charge to public funds and whether the public will get value for money on funds spent.

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 audit procedures performed, except for the matters 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. Long Outstanding Debts - Student Debtors

Review of records availed revealed student debtors of Kshs.3,480,489,652 out of which balances totalling to Kshs.743,477,690 had been outstanding for more than four (4) semesters. Management did not disclose the measures taken to ensure prompt collection of the debts.

Consequently, the internal control effectiveness in giving an assurance on full recoverability of the student's debts cannot be confirmed

2. Long Outstanding Payables

As disclosed under Note 12 to the financial statements, the statement of financial position reflects trade and other payables of Kshs.5,408,307,975. Included in this amount are sundry creditors and miscellaneous deductions amounting to Kshs.1,508,679,987 and Kshs.878,082 respectively that have been outstanding for more than three (3) years. Management has been given any explanation why these payables have not been settled.

Consequently, I am unable to confirm effectiveness on internal controls in the management of account payables.

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 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 to continue as a going concern.
- 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

08 February, 2021