

# REPORT OF THE AUDITOR-GENERAL ON KENYA SCHOOL OF GOVERNMENT 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 for Kenya School of Government set out on pages 16 to 40, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of cash flows, statement of changes in net assets 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 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 Kenya School of Government 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 Accounting Standards (Accrual Basis) and comply with the Kenya School of Government Act No. 9 of 2012.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion section of my report, nothing else 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. Adjustment to Financial Statements

The following adjustment was made between the first and final set of financial statements. However, the adjustment was not supported with the relevant documents to justify the amendment to the financial statements.

Component	Original financial statements-Kshs	Amended financial statements-Kshs	Variance-Kshs
Trade payables	266,445,848	265,923,855	521,993

#### 2. Property, Plant and Equipment

##### 2.1 Freehold Land

As reported in the previous years, property, plant and equipment balance of Kshs.5,736,167,426 reflected in the statement of financial position as at 30 June 2017 includes freehold parcels of land owned by Mombasa, Matuga and Embu campuses valued at Kshs. 736,200,000, Kshs. 47,500,000 and Kshs. 181,650,000, respectively whose original title deeds have, however, not been provided for audit verification.

Consequently, the ownership of these properties by the School could not be confirmed.

##### 2.2 Leasehold Land

The leasehold land balance of Kshs.1,879,215,340 as reflected in the financial statements includes land valued at Kshs.1,743,260,804 located in Lower Kabete, Nairobi where six plots (LR Nos. 11509-11514) have been illegally hived off and allocated. Although available information indicates that these allocations have since been revoked by a court of law, the School is yet to obtain ownership documents to the six plots even though the School has taken possession of the land. No valuation of the land subsequent to repossession has been undertaken to assess whether there has been significant impairment on these properties and hence it is not possible to quantify the overall impairment, if any, that should be incorporated in the financial statements.

### **2.3 Fixed Assets Register**

The school does not maintain a comprehensive fixed assets register showing details such as costs, dates of acquisition, depreciation charge for the year, accumulated depreciation and net book values. It has, therefore, not been possible to verify and confirm the existence and location of property, plant and equipment with the net book value of Kshs. 5,736,167,426 as reflected in the financial statements for the year under review.

### **2.4 Capital Work-In-Progress**

The property, plant and equipment balance of Kshs. 5,736,167,426 as at 30 June 2017 includes an amount of Kshs.858,320,214 in respect of capital work in progress as disclosed in Note 21b to the financial statements. The amount of capital work in progress includes a balance of Kshs. 434,899,817 brought forward from the previous years` in respect of several capital projects. The following anomalies have been noted with regard to these capital projects:

- (i) Customer Care building in Mombasa Campus has a cost of Kshs.309,000 attached to it and has remained as work in progress for over four years and at the same value. Documentation to support this balance or the reason for non-completion and/or transfer to the respective class of assets has not been provided.
- (ii) Baringo Campus has three works in progress projects totalling Kshs.26,148,334, all of which have not moved for the last four years. No project details in form of contracts and progress status have been provided for audit verification. In addition, no explanation has been given for non-completion of the projects.
- (iii) Embu Campus has a brought forward figure of Kshs.222,790,366 that has remained the same for over four years and no explanation has also been given for non-completion. Further, no project details in form of contracts and progress status have been provided for audit verification.
- (iv) Mombasa Campus Ultra-Modern Conference Centre has a brought forward figure of Kshs. 185,961,116. The amount relates to a contract signed on 1 October 2011 for a sum of Kshs.830,210,662 with a projected completion date of 30 March 2013 and has been going on for the last seven years. Information available indicates that the contract period has been extended to 28 December 2018. As of 30 June 2017, payments certified by the project manager were totalling Kshs. 226,724,007 representing 27.3% of the contract sum.

### **3. Receivables from Exchange & Non- Exchange Transactions**

#### **3.1 Trade Debtors**

Trade debtors as disclosed in Note 25 with a gross total of Kshs. 1,077,244,754 as at 30 June 2017 (30 June 2016 - Kshs.895,976,708) includes an amount of Kshs.673,185,954 or about 62.2% that has been outstanding for over 120 days. Any provision that would have been necessary over and above the Kshs.121,054,411 already provided in relation to this uncertainty has not been incorporated in these financial statements.

In addition, the general provision for bad and doubtful debts of 11% made on all trade debtors as at the end of the year yields a figure of Kshs. 118,549,692 while the recorded provision is Kshs. 121,054,411 resulting in an unexplained variance of Kshs. 2,504,719. Further, included in the trade debtors are receivables from non-existent or defunct institutions which owed the School an amount of Kshs. 12,941,303. The recovery of these receivables is doubtful and no provision has been made against these debts.

#### **3.2 Other Receivables**

Disclosed also under Note 25 to the financial statements are other receivables balance of Kshs. 34,643,903 which includes an unsupported amount of Kshs. 20,077,084 in respect of Embu Campus that has been outstanding for the last four years. Information available indicates that the balance relates to financial year 2013/2014 but there are no sufficient supporting documents or explanations on who the amounts are due from and why. In addition, a credit of Kshs. 5,693,300 processed in this account during the current financial year has not been explained or supported. Further although this balance has been outstanding for over four years, there has been no provision for its non-recovery in the financial statements.

#### **3.3 Staff Debtors**

The staff debtors of Kshs.3,619,921 as disclosed in Note 25 to the financial statements include outstanding imprests amounting to Kshs.571,304 owed by officers who have since left the service of the School. The recovery of these debts is doubtful and no provision has been made against the balance.

Under the circumstances, the receivables from exchange and non-exchange transactions balance of Kshs 994,454,167 as at 30 June 2017 is not fairly stated.

### **4. Trade and Other Payables**

#### **4.1 Trade Payables**

Trade and other payables balance of Kshs.758,091,168 as at 30 June 2017 includes an amount of Kshs.28,445,850 under trade payables in respect of goods received note(GRN) accruals that were not supported by a detailed analysis of the specific GRN that were outstanding as at 30 June 2017.

Consequently, it has not been possible to confirm the accuracy of the balance of trade payables as at 30 June 2017.

#### **4.2 Third Party Payments**

Trade and other payables balance of Kshs. 758,613,168 as disclosed in Note 27 to the financial statements at 30 June 2017 also includes an amount of Kshs. 56,713,124 in respect of third party payments. The amount relates to cash deposits into the bank accounts whose depositors have not been identified. A detailed analysis of the composition of this balance as at 30 June 2017 was not however provided for audit review.

Consequently, the completeness and accuracy of the balance could not be confirmed.

#### **4.3 VAT Payable**

Trade and other payables balance of Kshs.758,613,168 as at 30 June 2017 includes an amount of Kshs. 47,102,212 for the VAT payable as disclosed in Note 27 to the financial statements. However, an amount of Kshs.7,707,829 only was supported by VAT returns as at 30 June 2017 resulting in an unexplained variance of Kshs.39,394,383.

Under the circumstances, the accuracy of the VAT payable balance can not be confirmed.

#### **4.4 Other Payables**

Included under other payables balance of Kshs.33,754,351 as at 30 June 2017 are statutory deductions for PAYE, NSSF and NHIF. However, no relevant supporting information and break-down of the figures were provided in respect of the deductions and in relation to specific periods. They are likely to attract penalties from the relevant authorities.

In addition, the other payables balance of Kshs.33,754,351 as at 30 June 2017 is net of balances totalling Kshs.7,520,376 whose origin or composition have not been adequately explained.

Further, the other payables balance of Kshs. 33,754,351 as at 30 June 2017 include withholding VAT of Kshs. 11,888,069 whose composition or detailed analysis of the VAT retention certificates was not provided for audit verification.

Under the circumstances, the accuracy and validity of the trade and other payables balance of Kshs 758,091,168 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya School of Government 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 judgement, were of most significance to the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other Key Audit Matters to communicate in my report.

### **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 misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the School's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to cease operations, or have no realistic alternative but to do so.

The 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 School'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. 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.

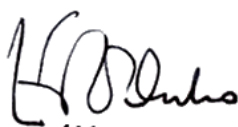
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 School'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 School'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 School to cease sustaining 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 School 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**

**30 July 2018**