

# **REPORT OF THE AUDITOR-GENERAL ON KENYA SCHOOL OF GOVERNMENT FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya School of Government set out on pages 1 to 56, 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 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 2018, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya School of Government Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Receivables from non and Exchange Transactions**

##### **1.1 Long Outstanding Receivables**

Trade debtors as disclosed in Note 22 with a gross total of Kshs.1,200,897,153 as at 30 June 2018 (30 June 2017 - Kshs.1,077,224,754) includes an amount of Kshs.831,317,060 or about 69% (2016/2017 – Kshs.673,185,954 or about 62.2%) that have been outstanding for over 120 days and receivables with a balance of Kshs.192,318,966 have not moved over the last two years. Any provision that would have been necessary over and above the Kshs.132,098,687 already provided in relation to this uncertainty, has not been incorporated in the financial statements.

Further, included in the trade debtors are receivables from non – existent or defunct institutions and individuals who owed the School an amount of Kshs.28,817,451 (2016/2017 - Kshs.12,941,303). While the recovery of these receivables is doubtful, no efforts appears to have been made to recover or clear them. No provision has been created against these debts in the financial statements.

##### **1.2 Unexplained Balances**

The receivables net balance of Kshs.1,119,391,333 as reflected in note 22 of the financial statements includes unexplained and unsupported balances for trade receivables -Kshs.309,438,397, other receivables - Kshs.20,077,085 (Embu Campus), Prepayments(Opening balance, Nairobi Campus) - Kshs.1,716,000 and Advance payments - Kshs.13,491,690. It was also not explained why the opening balance of prepayments and the advance payments have remained unutilized for over

one year or the reasons for non-recovery of the other receivables of Kshs.20,077,085 which has not changed since 2014.

Included in the receivables are the balances of Kshs.2,470,120 and Kshs.3,343,455 for UNDP and KESSULO programs respectively which were not supported by necessary documents to show what the programs were and why the School has not been able to recover them.

Further, the receivables balance of Kshs.1,200,897,153 as reflected in note 22 of the financial statements includes balances totaling Kshs.9,422,829 from National Government Affirmative Action Fund – Kshs.7,689,460, Women Enterprise Fund – Kshs.751,738, Uwezo Fund – Kshs.132,849 and State Department of Gender Affairs – Kshs.848,782 all of which have not been reflected in the respective entities financial records and therefore their recoverability is uncertain.

The accuracy of the receivables balance of Kshs.1,119,391,333 therefore could not be ascertained.

### **1.3 Increase in Receivables**

The Receivables increased from Kshs.994,454,167 in the financial year 2016/2017 to Kshs.1,119,391,333 in the year under review. This is an indication that the school is not aggressively following up on the debts and therefore increasing the credit and liquidity risks due to non-recovery.

### **1.4 Staff Debtors**

Contrary to the existing regulations, imprests amounting to Kshs.5,676,179 remained outstanding as at 30 June 2018. Further, officers were issued with multiple imprests amounting Kshs.1,374,641 before the previous ones had been surrendered contrary to the regulations. Also, included in the staff debtors balance of Kshs.6,410,775 is the outstanding imprest balances amounting to Kshs.66,123 from five (5) employees who have since exited the School service without clearing the imprest. The recovery of these debts is doubtful and no provision has been made against the balance.

### **1.5 Provision for Bad Debts**

Included in the administrative and general expenses balance of Kshs.684,047,536 is the provision for bad debts balance of Kshs.11,059,589 as shown in the statement of financial performance and note 17 of the statements. This balance has been overstated by Kshs.15,314. No explanation or reconciliation have been provided.

According to the notes to the financial statements the school finance policy provides for a general provision for doubtful debts of 11% of the total outstanding receivables. However according to the Financial Management Policy and Procedures Manual, 2013, the School operates a zero credit policy. The adoption of the rate of 11% has not been explained.

In view of the foregoing, the accuracy, completeness and recoverability of the receivables from non-exchange and exchange transactions of Kshs.1,119,391,333 as at 30 June 2018 could not be ascertained.

## **2. Trade and Other Payables**

### **2.1 Trade Payables**

Included under Trade and Other Payables balance of Kshs.884,688,643 and Note 27 to the financial statements is the Trade payables balance of Kshs.288,871,739. Included in the trade payable balance were amounts totaling to Kshs.2,336,287.50 which were not explained what they relate to and no documents were provided to support them. Further, included in the trade payable balance were amounts related to wages and allowances totaling to Kshs.33,315,861.87 for which no explanation was provided why they were included in the trade payable balance. Consequently, the accuracy of the trade payables balance of Kshs.288,871,739 as at 30 June 2018 could not be ascertained.

### **2.2 Third Party Payments**

Included under Trade and Other Payables balance of Kshs.884,688,643 and Note 27 is third party payments balance of Kshs.45,796,793. Out of this amount, the management could not provide detailed breakdown of the depositors for Kshs.2,832,364.34 (2016/17 – Kshs.56,713,124) for audit review. As a result, the accuracy of the balance of Kshs.45,796,793 as at 30 June 2018 could not be ascertained.

### **2.3 Retentions**

Trade and other payables balance of Kshs.884,688,643 as at 30 June 2018 include retention balance of Kshs.129,975,419 as shown on note 27 of the financial statements. However, whereas Baringo campus undertook and paid for two (2) projects and withheld retention amounting to Kshs.4,255,036, the School records did not show any retention withheld for the financial year 2017/2018 under the campus. Consequently, the accuracy of the balance could not be ascertained.

### **2.4 Staff Remittances**

Trade and other payables balance of Kshs.884,688,643 as at 30 June 2018 include an amount of Kshs.13,751,611 for Staff Remittances as shown on note 27 of the financial statements. Included in the staff remittances balance are bank check-offs, SACCO check-offs and staff welfare balances of Kshs.6,506,953, Kshs.4,277,431 and Kshs.1,753,223 respectively which were not remitted as at 30 June 2018. No explanation was given for the non-remission of the deductions. Further the details of the entries making up the staff remittances balances were not provided.

### **2.5 Withholding Taxes (VAT & Income)**

Trade and other payables balance of Kshs.884,688,643 as at 30 June 2018 include withholding taxes (VAT & Income) of Kshs.7,856,325 whose detailed analysis of the

tax return certificates making up the balance was not provided for audit verification. Consequently, the accuracy of the balance cannot be ascertained.

## **2.6 Other Payables**

Included in the trade and other payables balance of Kshs.884,688,643 is Other payables balance of Kshs.17,494,879. Further, included in that balance of Other payables are the balances for salary control, salary advance recovery and National Treasury finance report training of Kshs.9,429,916, Kshs.288,710 and Kshs.7,200,000 among others. No explanations were provided as to what these balances relate to or the supporting documents.

## **2.7 Statutory Deductions**

Included in the trade and other payables balance of Kshs.884,688,643 are the statutory deductions for PAYE, NSSF and NHIF of Kshs.10,951,741, Kshs.3,153,910 and Kshs.884,332 respectively. Out of these, Kshs.1,551,378, Kshs.2,512,674 and Kshs.810,962 for PAYE, NSSF and NHIF respectively were due before 30 June 2018 and are likely to attract penalties from the relevant authorities for non-remission.

In consequence, it has not been possible to ascertain the accuracy, completeness and propriety of the trade and other payables of Kshs.884,688,643 as at 30 June 2018.

## **3. Administrative and General Expenses**

### **3.1 Water and Conservancy**

The statement of financial performance and Note 17 reflects a balance of Kshs.685,480,534 for administrative and general expenses as at 30 June 2018. Included in these expenses is the amount of Kshs.12,012,624 for water and conservancy. However the payment vouchers and supporting documents for an amount of Kshs.4,904,463 were not availed for audit review. Further, expenditure amounting to Kshs.3,853,159 on water bottles were wrongly charged to this account instead of the water bottling costs account. No explanation was given for the wrong charge. Consequently, the accuracy of the balance of Kshs.685,480,534 for administrative and general expenses as at 30 June 2018 could not be ascertained.

## **4. Rent Revenue**

Records held in Matuga campus showed that four (4) officers were living in the campus hostels on diverse dates in the year under review while there was no evidence that any rent was being charged or collected.

Under the circumstance, the accuracy and completeness of the School's revenue for the year ended 30 June 2018 cannot be confirmed.

terms of engagement. No recovery efforts have been shown for the overpayments.

## **5. Outstanding Previous Year Audit Issues**

The following previous year audit issues are yet to be resolved;

### **5.1 Property, Plant and Equipment**

### **5.1.1 Freehold Land**

As reported in the previous years the Property, plant and equipment balance of Kshs.6,200,235,371 reflected in the statement of financial position include freehold parcels of land owned by Mombasa and Matuga campuses valued at Kshs.736,200,000 and Kshs.47,500,000 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.

### **5.1.2 Leasehold Land**

The leasehold land balance of Kshs.1,879,215,340 as reflected in the financial statements included land valued at Kshs.1,743,260,804 located in Lower Kabete, Nairobi where six plots (L.R Nos. 11509 – 11514) had been illegally hived off and allocated. Although available information indicated 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.

### **5.1.3 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.

### **5.1.4 Work-in-Progress**

The property plant & equipment balance of Kshs.5,736,167,426 as at 30 June 2017 included 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 had been noted with regard to these capital projects:

- (i) Customer care building in Mombasa 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 had not been provided.
- (ii) Baringo Campus has three projects works in progress totaling to 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 had been provided for audit verification. In addition, no explanation has 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 had also been given for non-completion. Further, no project details in form of contracts and progress status have been provided for audit verification.

## **5.2 Receivables from Exchange & Non-Exchange Transactions - Staff Debtors**

The staff debtors of Kshs.3,619,921 as disclosed in Note 25 to the financial statements included 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.

## **5.3. Trade and Other Payables**

### **5.3.1 VAT Payable**

Trade and other payables balance of Kshs.753,613,168 as at 30 June 2017 included 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 could not be confirmed.

### **5.3.2 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 breakdown of the were provided in respect of the deductions and in relation to specific periods. In addition, the other payables balance of Kshs.33,754,351 as at 30 June 2017 is net of balances totaling Kshs.7,520,376 whose origin or composition had 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.

## **5.4 Motor Vehicle Insurance Compensation**

A School motor vehicle worth Kshs.8,226,852 was involved in accident on 3 September 2017 and as result it was written off. As at 24 November 2017, the school was yet to be compensated by the insurer yet the vehicle was fully insured. Under the circumstance, the School has lost the motor vehicle and the premiums paid on its insurance leading understated property plant and equipment.

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, are of most significance in 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 key audit matters to communicate in my report.

### **Other Matter**

#### **1. Unbudgeted Expenditure**

Under Note 17, Administrative expenses, expenditure on water bottling costs of Kshs.2,919,494 was incurred by Baringo campus. However, the submitted approved budget did not include an estimate for these costs. Further, the payment vouchers to account for the expenditure were not availed for audit review. In the absence of an approved budget estimate, vouchers and supporting documents, it was not possible to confirm the regularity of the expenditure of Kshs.2,919,494 on Baringo Campus.

#### **2. Employees Costs**

Analysis of the payroll showed that in six hundred and sixty-six (666) instances the School paid employees their net pays below a third of their basic pay contrary to the Public Service Commission Human Resource Policies and Procedures Manual, 2016.

#### **3. Casuals Wages**

During the year under review the School paid casual wages amounting to Kshs.102,266,608 in the year under review. However, it was observed that contrary to the Schools' terms and conditions of service, the casuals were engaged for more than 90 days continuously. Further, no evidence was availed to show that the Director General reported on the casual employment to the Council as required by the KSG Act.

#### **4. Capital Projects**

- (i) The second phase of the contract for the completion of the Deputy Director's residence, Baringo Campus was awarded at a contract sum of Kshs.4,400,000 and with a commencement date of 5<sup>th</sup> February 2015. Site inspection showed that the contractor appears to have abandoned the site. Although no payment has been made in the year under review, a request for payment of Kshs.2,001,756 dated 8 November 2017 has been raised. However, no evidence of work done during the year was availed for audit.
- (ii) Due to fundamental breach of contract by the contractor, the contract for the Extension of VIP Guest Wing, Matuga Campus, worth Kshs.4,871,370 was terminated by the client on 21 January, 2019 based on conditions of the contact agreement. A site visit established that the work was incomplete and

the contractor had abandoned the site. Records held by the campus indicate that the contractor had requested for payment of Kshs.3,029,630 (or 62% of the contract sum) on 12 December 2018. However, no evidence of work done during the year was availed for audit.

Further, minutes of the site visit meeting held on 24 April 2018 indicated the works physically done was at 36% and yet another site visit meeting held on 6 June 2018, indicated the status of work done was at 60%. While it appears that there was no work being carried out between the two site meetings, it was not explained how the status of the physical work done moved from 36% to 60%.

## **5. Financial Performance**

The School's financial performance deteriorated during the year from a surplus of Kshs.190,428,903 in 2016/2017 to a loss of Kshs.36,709,852 in 2017/2018 and its accumulated surplus showed a downward trend from Kshs.2,069,834,513 in 2016/17 to Kshs.2,033,124,661 in 2017/18. The management has not indicated what measures are being taken to address the issue.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion 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.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Review of the Internal Audit reports for the year under review established the following issues which are yet to be resolved;

#### **1. Allowances**



A staff deployed from one office with effect from 7th September 2015 continued to enjoy extraneous allowance entitled to the former office even after deployment for a period of two (2) years up to August 2017.

An officer was overpaid on house allowance for ten (10) months totaling to Kshs.40,000, without evidence of approval of the variance. No explanation was provided and no recoveries had been made.

## **2. Receivables**

The School, in Mombasa campus, had debts amounting to Kshs.783,528 advanced to self-sponsored participants and thus posing a higher risk of default. Further, four (4) employees exited the School service without clearing their outstanding imprest balances amounting to Kshs.343,060.

## **3. Housing and Rent Income**

Four (4) members of staff who had left the School service were noted to be still occupying staff houses and even had their rent in arrears amounting to Kshs.503,736 as at 30th September 2017. Further, seven (7) non-staff members renting School shops and houses had rent in arrears amounting to Kshs.427,541 as at 30th September 2017.

## **4. Statutory Deductions**

Baringo Campus did not withhold the 3% income tax of Kshs.16, 980 on project and thus resulting in overpayment to the contractor. Further, in five (5) instances the campus paid gross amount to suppliers on vatable items without withholding the 6% VAT amounting to Kshs.36,368.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 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 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 Kenya School of Government ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Kenya School of Government 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.

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 Kenya School of Government 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 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.

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 ability to continue as a going concern or 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 to cease to continue as a going concern or 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 Kenya School of Government 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**

**15 August 2019**