

REPORT OF THE AUDITOR-GENERAL ON KENYATTA UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenyatta University set out on pages 42 to 80, 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,. 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 Kenyatta University 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 University's Act, 2012 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, 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

1.0 Going Concern

During the year under review, the University recorded a deficit of Kshs.43,453,002. Further, the current liabilities of Kshs.3,278,662,945 as at 30 June 2017 exceed the current assets of Kshs.1,693,135,446 resulting to a negative working capital of Kshs.1,585,527,499 which indicates that the University was unable to meet its financial obligations as and when they fall due. In particular, the University was unable to remit pension and taxes amounting to Kshs.808,367,887 and other deductions of Kshs.161,875,694 to the respective beneficiaries there by risking fines and penalties.

The University is therefore operating under financial difficulties and if no positive steps are taken to improve the financial performance, it may not be able to meet its mandate in future. The financial statements have therefore been prepared on a going-concern assumption that it will continue to receive financial support from Government, bankers creditors and donors.

2.0 Property Plant and Equipment

2.1 Encroached Land

As similarly reported in the previous years, the property, plant and equipment balance of Kshs.18,584,848,221 reflected in the statement of financial position as at 30 June 2017 includes land registration No. 11026/2 measuring 445.17 hectares on which the main campus of the University stands. Included in the 445.17 hectares is a portion of land measuring 12.472 hectares valued at Kshs.123,281,555 that has been illegally encroached upon by squatters. Although the University has filed a case in a Court of law against the encroachers, the matter has not been determined and the squatters continue to erect buildings on the land as at the date of this report.

2.2 Land Without Ownership Documents

The property, plant and equipment balance of Kshs18,584,848,221 further includes land valued at Kshs.880,000 acquired from Lagdera Constituency Development Fund in Garissa County. However ownership documents for the land were not availed for audit verification and as a result, it has not been possible to confirm that the land is owned by the university.

2.3 Land Originally Excised from Public Road Reserve

In addition and as previously reported, the property, plant and equipment balance of Kshs.18,584,848,221 includes a piece of land LR No NKU-Block 9/108 in Nakuru Town measuring approximately 0.0231 hectares with a value of at Kshs.2,018,237 which was issued with a certificate of lease dated 2 November 2009 for a lease period of 99 years. However, information available indicates that the of land was originally excised from a public road reserve measuring 10m x 32.93m previously separating plot number 86 and 87 leaving a narrow lane of 3 meters. As similarly reported in the previous year, the matter was reported to the Nakuru County Government which in turn requested the National Land Commission to conduct investigations to establish the circumstances under which the road was excised and allocated to an individual who subsequently sold the same to the University.

In the circumstances, it has not been possible to confirm the ownership status of the three portions of land valued at Kshs.126,179,792 as at 30 June 2017.

3.0 Receivables from Non-exchange Transactions

As similarly reported in the previous year, the receivables from non-exchange transactions balance of Kshs.715,302,918 reflected in the statement of financial position as at 30 June 2017 includes imprest control balance of Kshs.21,211,684 out of which Imprest of Kshs.15,003,769.65 has been outstanding for over a year. Further, the balance of Kshs.715,302,918 also includes an amount of Kshs.6,920,155 in respect of staff debts out of which Kshs.1,421,445 relates to car loans due from four (4) officers who have since left the University which have been outstanding for long period of time. The loans were issued by National bank of Kenya and guaranteed by the University but the staff defaulted in repayment after they left the University. The bank however recovered the amounts owed together with accrued interest from the fixed deposit account of the University. It is not clear how the vehicle logbooks were

released to ex-staff and how the ex-employees were cleared by the management before the University had fully recovered the outstanding loans from them.

In the circumstances, it has not been possible to confirm full recoverability of the receivables from non-exchange transactions totaling to Kshs.715,302,918

4.0 Nugatory Expenditure - Closure of Kigali and Arusha Campus

Kenya University had incurred Kshs.420,749,207 to set up both Kigali campus in Rwanda and Kshs.97,425,152 Arusha campus in Tanzania all totaling Kshs.518,174,359. It was however established that the University closed down the two campuses due to operational challenges apparently imposed by change in legislation by both the Rwandan and Tanzanian governments after the University had just met all the requirements and ready to roll out their programmes.

Although the university has explained that all the due diligence was done before the decision to open up the two campuses, the management has not explained the steps being taken to recover the amount so far incurred totaling Kshs.518,174,359.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya University 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 judgment, 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

Diversity in Staffing in the University

Chapter seven of the National cohesion and integration Act, 2008 states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of the staff. Further, no public establishment shall have more than one third of its staff from same ethnic community. However, a review of the university staff data as of 30 June 2017 revealed that one ethnic community accounted for 45% of senior management, 39% academic staff and 42% on Non-teaching staff. The University has failed to improve the ethnic balance as similar percentages remain unchanged compared to last years with an increase in percentage for non-teaching staff which increased from 39% to 42%. The University management is therefore in breach of the law on diversity in staffing of public establishments.

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 University's ability in continuing as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the University 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 University'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 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.

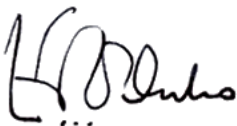
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- 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 University'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 University's ability to continue as a going concern or 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 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

28 May 2018