

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenyatta University set out on pages 3 to 39, which comprise the statement of financial position as at 30 June, 2019, 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 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, 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 Public Finance Management Act, 2012 and the University's Act, 2012.

Basis for Qualified Opinion

1.0 Going Concern

During the year under review, the University recorded a deficit of Kshs.677,803,757 (2018-deficit of Kshs.2,109,408,511) thus reducing the accumulated surplus from Kshs.6,522,406,889 in June, 2018 to Kshs.5,844,603,131 as at 30 June, 2019. Further, the current liabilities of Kshs.5,497,338,841 exceed the current assets of Kshs.1,675,332,451 resulting to a negative working capital of Kshs.3,822,006,390 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.2,920,340,762, audit fees of Kshs.6,400,000 and other deductions of Kshs.412,300,504 to the respective beneficiaries thereby risking fines and penalties. Although the University Management has put in place stringent cost cutting and revenue enhancement measures to address the financial challenges, the debt still remains unpaid.

The University is therefore operating under financial difficulties and has currently resulted to financing its operations using costly short-term borrowings which may further worsen the liquidity position. Therefore, the University is technically insolvent and it may not be able to meet its mandate in future. The financial statements have therefore been prepared on a going concern basis on assumption that it will continue to receive financial support from Government, creditors and donors.

2.0 Property, Plant and Equipment

2.1 Encroached Land

As reported in the previous years, the property, plant and equipment balance of Kshs.17,766,272,655 reflected in the statement of financial position 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 informal settlers. Although the University has filed a case in a Court of law against the illegal encroachment, the matter has not been determined and the informal settlers continue to erect buildings on the land.

2.2 Land without Ownership Documents

The property, plant and equipment balance of Kshs.17,766,272,655 further includes land measuring thirty-two (32) hectares allocated to the University from Lagdera Constituency Development Fund in Garissa County. The University has paid registration fees of Kshs.880,000. Available information indicates that the University has obtained a Letter of No Objection dated 20 August, 2019 from the County Government of Garissa. The University has also obtained drawings for the Part Development Plan (PDP) awaiting advertisement, before submitting them to the National Director of Physical Planning for approval and issuance of an Allotment Letter.

2.3 Kenyatta University Teaching, Research and Referral Hospital

The property, plant and equipment balance of Kshs.17,766,272,655 as at 30 June, 2019 excludes the value of Kenyatta University Teaching, Research and Referral Hospital that stands on the Universities 7.97 hectares of land. The Hospital was built after the Kenya Government entered into a concessional loan agreement with Export-Import Bank of China for a concessional loan of Kshs.8,756,625,600. However, supporting documentation of the construction of the hospital were not availed for audit verification. Further, the Government through Legal Notice No.4 of 25 January, 2019 gazetted Kenyatta University Teaching, Research and Referral Hospital into a state corporation.

In view of the foregoing, the University's property, plant and equipment balance of Kshs.17,766,272,655 as at 30 June, 2019 could not be confirmed as fairly stated.

3.0 Receivables from Non-Exchange Transactions

3.1 Car Loans

As previously reported, the receivables from non-exchange transactions balance of Kshs.730,322,130 reflected in the statement of financial position as at 30 June, 2019 includes an amount of Kshs.6,327,583 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. The amount has been outstanding for long period of time. The loans were issued by the 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. Although the car loan debts are being followed by the University lawyer through legal channels and the appointed debt collection firm, the University has not fully recovered the outstanding loans from them. It is also not clear how the vehicle logbooks were released to the ex-staff and how the ex-employees were cleared by Management before the University had fully recovered the outstanding loans from them.

3.2 Outstanding Imprest

The receivables from non-exchange transactions balance of Kshs.730,322,130 also includes outstanding imprests totaling Kshs.14,448,286 out of which imprest amounting to Kshs.9,380,326 has been outstanding for over a year. The University has indicated that recovery of the long outstanding imprests is being followed through legal channels and a debt collection firm has been appointed to assist in collecting the debts.

Under the circumstance, recoverability of the receivables amounting to Kshs.10,801,771 is doubtful.

4.0 Nugatory Expenditure - Closure of Kigali and Arusha

As previously reported, Kenyatta University incurred a total of Kshs.518,174,359 to set up both Kigali campus in Rwanda (Kshs.420,749,207) and Arusha campus in Tanzania (Kshs.97, 425,152). However, the University closed down the two campuses due to operational challenges apparently imposed by change in legislation by both the Government of Rwanda and the Government of the United Republic of Tanzania after the University had just met all the requirements and was ready to roll out programmes.

Management had indicated that, out of Kshs.97,425,152 investment in Arusha Campus in Tanzania, an amount of Kshs.90,016,542 was expenditure on salary, rental, operations and maintenance expenses hence not recoverable. A balance of Kshs.7,408,610 was in relation to furniture and equipment that were brought to the main campus and distributed to various departments. However, the inventory of such assets was not availed for audit verification. Further, The National Treasury has granted approval for disposal of the property in Kigali Campus.

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 made any recovery on the amount so far incurred totalling Kshs.518,174,359.

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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts indicates that the University had an approved revenue budget of Kshs.7,335,002,303 against actual receipts of Kshs.8,860,788,646 resulting to a surplus of Kshs.1,525,786,343. Similarly, the University had an approved expenditure budget of Kshs.9,301,246,904 against actual expenditure of Kshs.9,538,592,402 resulting into an over-expenditure of Kshs.237,345,498 or 3%. The receipts surplus was attributed to stringent measures implemented on fees collection while the over-expenditure occurred mainly due to an increase in depreciation of assets that was not considered in the budget. However, there is need by the University to refocus on budgeting on its own locally generated funds.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on 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 has come to my attention to cause me to believe that public resources has not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Ethnic Diversity

A review of the University staff data as of 30 June, 2019 revealed that one ethnic community accounted for 40% of Council members, 45.4% of senior management and 40.7% of permanent staff. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from same ethnic community.

The University was therefore in breach of the Law.

2.0 Non-Compliance with One Third Basic Pay Rule

Analysis of the payroll data for the year ended 30 June, 2019 revealed that there was a monthly average of one hundred and sixty (160) University employees who were being paid net salary that is less than a third (1/3) of their basic pay. This is contrary to Section C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service dated May, 2016 which states that public officers shall not over-commit their salaries

beyond two thirds (2/3) of their basic salaries and Heads of Human Resource Units should ensure compliance.

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 the audit procedures performed, 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.

Basis for Conclusion

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 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 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 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 the intention to terminate 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.

Those charged with governance are responsible for overseeing the University's financial reporting process, reviewing the effectiveness of how the entity 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

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 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 noncompliance. 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 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 University 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 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

19 July, 2021