

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Kisii University set out on pages 1 to 22, which comprise the statement of financial position as at 30 June 2017, statement of financial performance, statement of changes in net assets, statement of cash flows and summary 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.

In my opinion, except for effect of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kisii 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 Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Other Matter section of my report, 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. Unsupported Other Expenses

Note 10 to the statement of financial performance indicates the Other Expenses for the year under review totaled ng Kshs.355,669,000. However, only expenditure totaling Kshs296,367,991 was supported with documentary evidence. Therefore records for expenditure totaling Kshs.59,301,009 were not presented for audit.

As a result, propriety of the payments totaling Kshs.59,301,009 cannot be confirmed and further, it is not possible to confirm that the General Expenses balance of Kshs.813,818, 000 is fairly stated.

Consequently, the University was in breach of the law.

2. Retention Fees

Note No. 18 to the financial statements indicates that retention fees due to contractors as at 30 June 2017 totalled Kshs.3,117,000. However, an analysis of the balance has not been provided to confirm whether it is fairly stated considering that the value of

projects under implementation by the University as at 30 June 2017 was Kshs.1,780,880,000.

As a result, the accuracy of the retention fees balance of Kshs.3,117,000 as at 30 June 2017 cannot be confirmed.

3. Property, Plant and Equipment

Note 15 to the financial statements indicates that additions to property, plant and equipment during the year amounted to Kshs.169,803,000. However, adjustments totaling to Kshs.11,386,000 made on the additions were not supported with documentary evidence and as a result, the propriety of the adjustments could not be confirmed..

In view of the anomaly, it is not possible to confirm that the property, plant and equipment balance of Kshs.2,367,811 as at 30 June 2017 is fairly stated.

4. Receivables From Exchange Transactions

Note 13 to the financial statements indicates that the outstanding fee balances as at 30 June 2017 were Kshs.432,558,000. This was after adjustments totaling Kshs.87,459,000 were made to reduce the balance from Kshs.520,017,000. However, the journal vouchers provided to support the adjustments reflected a balance of Kshs.95,504,968 resulting in an unexplained difference of Kshs.8,045,968. In addition, the adjusting journal vouchers did not indicate whether student fee payments used to reduce the outstanding fee balances related to prepaid tuition fee or were to cater for the debts owed.

Consequently, the accuracy of the student fees balance of Kshs.432,558,000 as at 30 June 2017 cannot not be confirmed.

5. Bank Overdraft

Note 18 to the financial statements indicates that the bank overdraft as at 30 June 2017 was Kshs.52,708,000. However, the supporting ledger balance on the said date was Kshs.46,648,431 resulting in an unexplained variance of Kshs.6,059,569.

As a result, the accuracy of the bank overdraft balance of Kshs.52,708,000 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kisii 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 and internal control 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 and Other Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Budget Performance Analysis

Comparison of budgeted and actual revenue as well as expenditure balances revealed significant variances as detailed below:

Items	Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	Variance (%)
Revenue				
Government grants & subsidies	924,497	1,061,278	(136,781)	-15%
Tuition	1,799,601	1,946,211	(146,610)	-8%
Other Incomes	-	41,116	(41,116)	
Total Income	2,724,098	3,048,605	(324,507)	
Expenditure				
Employee Costs	1,761,552	1,688,496	73,056	4%
Council Expenses	35,500	26,438	9,062	26%
Advertising	16,089	15,109	980	6%
Conferences and delegations	7,110	687	6,423	90%
Electricity	47,907	12,412	35,495	74%
Fuel and Oil	10,441	11,733	(1,292)	-12%
Insurance	10,216	1,632	8,584	84%
Postage	4,245	3,578	667	16%
Printing and Stationery	17,780	21,567	(3,787)	-21%
Rental	192,432	250,967	(58,535)	-30%
Travel and Subsistence	49,326	104,148	(54,822)	-111%
Repairs and Maintenance	8,847	36,316	(27,469)	-310%
Part time lecturer Costs	94,637	461,265	(366,628)	-387%
Other Expenses	468,016	355,669	112,347	24%
Provisions	-	54,457	(54,457)	
Total Expenditure	2,724,098	3,044,474	(320,376)	
Capital Grants Receipts	279,846,000	279,846,000	-	0%
Capital Expenses	279,846,000	169,803,000	110,043,000	39%

Analysis of the University's budget against actual figures revealed that there was under-expenditure in employee costs, council expenses, conferences and delegations, electricity, insurance, postage, and other expenses. The University overspent on, fuel and oil, printing and stationery, rental costs, travelling and subsistence, repairs and maintenance and in payment of part-time lecturers. Management has not provided explanations for the variances as required by International Public Sector Accounting Standard (IPSAs) 24.

2. The University also underutilized capital funds which meant that projects budgeted for would not be completed on time and thus value-for-money on the projects may not be realized as soon as expected, if at all.

3. Issuance of Multiple Imprests

During the year under review, the University issued multiple imprests totaling Kshs.985,882 to various of its employees contrary to Section 93 (5) of the Public Finance Management Act, 2015.

4. Capital Development Funds

The statement of changes in net assets indicates that the University received Kshs.279,846,000 as capital development funds during the year under review. However, computation of the expected closing bank balance and the actual funds available in the bank account for development expenditure revealed a variance of Kshs.116, 380,000 as shown below:

Details	Kshs'000
Bank balance as at 30 June 2016	167,863
Add: Receipts in the year	279,846
Less: Payments	(169,803)
Expected closing bank balance	277,906
Less: actual closing bank balance as at 30 June 2017	(161,526)
Unexplained Variance	116,380

Management has not explained the reason for the variance of Kshs.116,380 which suggests failure to account for funds of equal amount.

5. Non-compliance with Regulations on Wage Bill

Total expenditure on employee costs during the year under review amounted to Kshs.1,688,496,000 as disclosed under Note 6 to the financial statements. Therefore the wage bill constituted 55% of the total receipts of Kshs.3,048,605,000, contrary to Public Finance Management Regulations 2015, Section 107(2) that recommends a maximum of 35% of revenue to be expended on personal emoluments

6. Non-compliance with the Law on Ethnicity

During the year under review, the University employed a total of 33 employees out of which forty-two per cent (42%) were from the ethnic community dominant in the County where the University is located. The composition of the University's establishment was contrary to Section 7 (1) of the National Cohesion and Integration Commission Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and, no public establishment shall have more than one third of its staff from the one ethnic community.

Therefore, the University management have breached the law.

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 to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern accounting assumption unless the management is aware of the intention to cease the operations of the University.

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 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 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 Kisii University's ability to continue offering 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 Kisii University to cease to continue offering 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 of the entities or business activities 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 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

17 August 2018