

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Maseno University set out on pages 1 to 39, which comprise the statement of financial performance, statement of financial position as at 30 June 2017, 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 Maseno 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.

Further, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion 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. Cash and Cash Equivalents

The Kenya Commercial Bank main account reconciliation cash book balance of Kshs.36,765,965 as at 30 June 2017 includes unrepresented cheques balance of Kshs.15,090,863 which however differs with the unrepresented cheques balance of Kshs.42,975,717 reflected under trade payables balance shown in the respective schedules. Consequently, it has not been possible to confirm that the cash and cash equivalents main account balance of Kshs. 36,765,965 at as at 30 June 2017 is fairly stated.

2. Kisumu Hotel-room Income

The statement of financial performance under Note 8 to the financial statements reflects Kshs. 141,374,893 as revenue earned from University Enterprises. Included in the balance is Kshs26,914,596 room-hire income at Kisumu Hotel. However, the income recorded a significant decrease of Kshs.40,416,404 from the previous year financial while the hotel expenditure increased by Kshs.3,447,044 over the same period.

Management have not provided any plausible explanation for this unsatisfactory situation.

3. Property, Plant and Equipment

The statement of financial position reflects property, plant, and equipment balance of Kshs.2,305,562,999 as at 30 June 2017 which includes motor vehicle additions of Kshs.21,688,518 made during the year under review. However, examination of procurement documents for the motor vehicles revealed the following anomalies:

3.1 Purchase of 67 Seater Bus

In the year under review, the University procured a 67-seater bus at a total cost of Kshs.11,768,240 through restricted tendering method. However, the procurement method did not meet the conditions set in regulation 53(3) of the Public Procurement and Disposal Regulations, 2006 as only six (6) suppliers were invited to bid as opposed to a minimum of ten (10) required. Consequently, the management breached the law on public procurement.

3.2 Direct Procurement of Ambulance

The University through the National Government supplies circular R04/2015/2016 of 16 June 2015 procured an ambulance at a cost of Kshs.6,235,278. However management has not presented any evidence showing that the circular was approved as required by Section 56(1) of the Act.

Consequently, it is not possible to confirm that the procurement was done according to the law.

4. Fixed Asset Register

As in the previous financial year, the University has not provided a detailed fixed asset register indicating value, date of acquisition, description and location of assets under its possession as required by Section 143 of the Public Finance Management (National Government) Regulations, 2015.

In the absence of the register, the accuracy, existence and ownership by the University of assets valued at Kshs. 2,305,562,999 as at 30 June 2017 reported under property, plant and equipment cannot not be confirmed.

5. Trade and Other Payables

Note 26 to the financial statements reflects trade and other payables which however decreased from Kshs.477,664,776 as at 30 June 2016 to stand at Kshs.188,942,730 as at 30 June 2017. The following anomalies were noted in relation to payables totaling Kshs. 188,942,730;

- i. Trade and other payables balance of Kshs.188,942,539 excluded payables totaling Kshs.6,717,668 owed to the County Government of Kisumu.

- ii. Trade payables from exchange transaction of Kshs,65,204,392 includes a listing of unrepresented cheques amounting to Kshs.42,975,717 which includes fifty five(55) stale cheques of Kshs.4,031,421 that had not been reversed as at 20 June 2017.n analysis for trade payables to show the age of the debts and financial status of the debtors was not presented for audit.

In view of these anomalies, the validity and propriety of trade and other payables balance of Kshs.188,942,730 as at 30 June 2017 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Maseno 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 section, I have determined that there are no key audit matters to communicate in my report.

Managements Responsibility 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 services, disclosing, as applicable, matters related to sustainability of services and using the going concern accounting assumption unless the management has knowledge of the intention to liquidate the University or cease its operations. Those charged with governance are responsible for overseeing the University's financial reporting process.

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.

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 Maseno 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 Maseno 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 entity 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

09 August 2018