

# REPORT OF THE AUDITOR-GENERAL ON MASENO UNIVERSITY 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 Maseno University set out on pages 1 to 38, 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, 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 effects 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 Maseno University as at 30 June, 2018, 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.

### Basis for Qualified Opinion

#### 1. Property, Plant and Equipment

The statement of financial position for the year ended 30 June 2018 indicates a property, plant and equipment balance of Kshs. 2,468,125,378. Included in this figure was land valued at Kshs.215,922,317 as per note 22 to the financial statements. However, two parcels of land owned by the university; Maseno Township/Block 2/250 measuring 41.45 hectares and Maseno Township/Block 2/2 measuring 15.07 hectares were not included in the financial statements. Further, a valuation of the university's assets has not been done to establish the current values.

Consequently, the accuracy, valuation and completeness of the value of land of Kshs. 215,922,317 could not be ascertained as at 30 June 2018.

#### 2. Receivables From Exchange Transactions

The statement of financial position for the year ended 30 June 2018 indicates receivables from exchange transactions balance of Kshs. 236,763,551. Included in this amount were advances to Tom Mboya University of Kshs.20,772,325. However, the records maintained and obtained from Tom Mboya University indicate that payables to Maseno University were Kshs.67,958,848 as shown below:

	<b>Kshs.</b>
Seconded Staff	46,405,334

Procured items from Maseno University	5,864,636
Maseno University advance	15,688,878
<b>Total</b>	<b>67,958,848</b>

A reconciliation of the variance of Kshs.47,186,523 between the two figures has not been provided for audit review.

Consequently, the accuracy and completeness of the value of Kshs.20,772,325 relating to advances to Tom Mboya University could not be ascertained as at 30 June 2018.

### 3. Payables

The statement of financial position for the year ended 30 June 2018 reflects a payables balance of Kshs.293,601,764. However, documentary evidence to support the following amounts have not been made available for audit review:

	<b>Amount Kshs.</b>
Benevolent Fund	4,946,880
Maseno University Sacco	2,024,881
Siaya County Advances	5,000,000
Placement Fees	6,888,000
<b>Total</b>	<b>18,859,761</b>

Further, the aged analysis of payments due to part time lecturers of Kshs. 130,893,288 was not provided for audit review.

Consequently, the accuracy, validity and completeness of the payables balance of Kshs. 293,601,764 could not be ascertained as at 30 June 2018.

### 4. Employee Costs

The statement of financial performance for the year ended 30 June 2018 shows employee costs of Kshs.2,664,384,046. Included in this amount were payments in relation to the Collective Bargaining Agreement (CBA) of 2010 totaling Kshs.504,191,520 as indicated in note 11 to the financial statements. However, the agreement was not made available for audit review to confirm that the payments had been correctly computed and paid legally.

Consequently, the completeness and validity of the Kshs.504,191,520 expenditure on employees relating to the CBA could not be confirmed as at 30 June 2018.

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 in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Emphasis of Matter

### 1. Budget Performance

The comparison of budget against actual amounts is shown below:

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Variance</b>
<b>Revenue</b>	<b>(Kshs)</b>	<b>(Kshs)</b>	<b>(Kshs)</b>	<b>%</b>
Government Capitation Grants	1,514,135,060	2,139,461,094	(625,326,034)	-41%
Research Grants	84,493,793	178,866,801	(94,373,008)	-112%
Tuition fees	1,022,259,264	939,913,585	82,345,679	8%
Other income	258,608,548	207,917,628	50,690,920	20%
<b>Total Income</b>	<b>2,879,496,665</b>	<b>3,466,159,108</b>		
<b>Expenses</b>				
Employee Costs	2,598,997,720	2,664,384,046	(65,386,326)	-3%
Council Expenses	28,000,000	19,783,272	8,216,728	29%
Audit fees	952,000	952,000	-	
Depreciation	102,965,506	102,965,506	-	
Operating Expenses	485,687,840	417,131,366	68,556,474	14%
University Enterprise Expenses	100,682,154	60,197,043	40,485,111	40%
Repairs and Maintenance	81,106,640	31,677,774	49,428,866	61%
General Expenses	162,213,280	176,860,471	(14,647,191)	-9%
<b>Total Expenses</b>	<b>3,560,605,140</b>	<b>3,473,951,478</b>	<b>86,653,662</b>	<b>2%</b>
<b>Surplus/deficit</b>	<b>(681,108,475)</b>	<b>(7,792,371)</b>		

The increase in revenue was due to funds received to cater for the Collective Bargaining Agreement. There was also an increase in research grants but a drop in tuition fees and other income. There were savings in all expense items except employee costs and general expenses.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these

matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

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 other key audit matters to communicate in my report.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit 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 have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Staff Ethnicity**

The payroll statistics revealed that sixty two per cent (62%) of the senior management were from one ethnic community while sixty four per cent (64%) of academic and non-teaching staff were from one ethnic community. This is contrary to National Cohesion and Integration Commission Act, 2008 section 7 (1) which requires that all public establishments seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

#### **2. Audit Fees**

The statement of financial position for the year ended 30 June 2018 indicates that the payables balance was Kshs.293,601,764. Included in this amount is audit fees payable of Kshs.2,854,000 which has remained unpaid for three years. Non-payment of audit fees is a contravention of section 41(1) of the Public Audit Act, 2015.

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

### **Conclusion**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Internal Controls Effectiveness, Governance and Risk Management Systems section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Non- Integration of the University's Management Information System**

A review of the University's management information system revealed that servers in Kisumu hotel and the city campus are not linked to main servers in Maseno University main campus. They operate on different platforms and as stand alone systems. Therefore, the system at the main campus does not automatically collate fees and other direct bank deposits from students from the two sub units but this has to be done manually. This manual intervention may lead to errors and omissions and thus negates the use of the information system.

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 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 ability to sustain 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 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 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 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 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.



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

**Nairobi**

**07 January 2019**