

# **REPORT OF THE AUDITOR-GENERAL ON MULTIMEDIA UNIVERSITY OF KENYA FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Multimedia University of Kenya set out on pages 1 to 15, 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, 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 Multimedia University of Kenya 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 University's Act, 2012 of Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, 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. Going Concern**

During the year under review, the University recorded a deficit of Kshs.174,358,253 (2016 deficit: Kshs.163,581,885) which increased the accumulated deficit from Kshs.358,321,302 in 2015/2016 to Kshs.532,679,555 as at 30 June 2017. Further, the statement of financial position reflects current liabilities of Kshs.771,375,766 as at 30 June 2017 against current assets of Kshs.316,440,992 resulting in a negative working capital of Kshs.454,934,774 as at the same time. The University was therefore unable to meet its financial obligations as and when they fell due. In particular the university was unable to remit pension and gratuity and taxes of Kshs.144,201,931 and Kshs.272,190,366 respectively to the respective beneficiaries thereby risking fines and penalties.

The University is therefore technically insolvent and the financial statements have been prepared on a going concern basis on the assumption of continued financial support from the Government, creditors and bankers.

#### **2.0 Receivables from Exchange Transactions**

## 2.1 Long Outstanding Debts

As disclosed in Note 12 to the financial statements, the receivables from exchange transactions balance of Kshs.164,785,287 includes trade debtors totalling to Kshs.104,939,533 out of which a balance of Kshs.77,928,486 has been outstanding for over ten (10) years and some of which date back to year 1998. Although management has adequately provided for these debts in the financial statements, available information indicate that the recovery process has been slow. It was also noted that the balance of kshs164,785,287 was arrived at after netting off impairment allowances totalling Kshs.160,375,412 and whose nature and supporting analysis was not availed for audit review. Further, included in the receivables from exchange transactions balance is staff debtors figure of Kshs.23,570,370 which includes debts totalling Kshs.22,910,549 due from the defunct Kenya College of Communications Technology (KCCT) staff who have since left the University. No satisfactory explanation was provided as to how the University cleared the former employees without recovering the outstanding debts.

Additionally, examination of a sample of student debts revealed that out of the outstanding amount of Kshs.196,650,798, recoverability of the debts totalling to Kshs101,723,862 is doubtful as the same has since been included in non-existent or inactive students as detailed below:

| <b>Student Status</b> | <b>Debt (Kshs.)</b>   |
|-----------------------|-----------------------|
| Withdrawn             | 50,449,032.00         |
| Suspended             | 138,500.00            |
| Repeat externally     | 62,146.00             |
| Registration          | 12,301,775.00         |
| Expelled              | 1,408,085.00          |
| Discontinued          | 7,510,751.00          |
| Deregistered          | 4,299,489.00          |
| Deferred              | 245,000.00            |
| Deceased              | 329,004.00            |
| Completed             | 16,820,290.00         |
| Academic Leave        | 8,159,790.00          |
| <b>TOTAL</b>          | <b>101,723,862.00</b> |

In the circumstances, it has not been possible to confirm that the receivables from exchange transactions balance of Kshs.164,785,287 as at 30 June 2017 is fairly stated.

## 2.2 Unexplained Variance

The financial statement balances were at variance with the supporting schedules balances as shown below;

|   | <b>Component/ Particulars</b>                                       | <b>Financial Statement Balance</b> | <b>Support Schedule Balance</b> | <b>Variance</b>   |
|---|---|------------------------------------|---------------------------------|-------------------|
|   |   | <b>Kshs.</b>                       | <b>Kshs.</b>                    | <b>Kshs.</b>      |
| 1 | Student debtors   | 196,650,798                        | 195,022,420                     | 1,628,378         |
| 2 | Trade debtors   | 104,939,533                        | 95,917,521                      | 9,022,012         |
| 3 | Staff debtors   | 23,570,370                         | 22,910,549                      | 659,821           |
| 4 | Trade and other payables from exchange transactions- Note 15 totals | 771,375,766                        | 771,412,758                     | -36,992           |
|   | <b>TOTAL</b>  | <b>1,096,536,467</b>               | <b>1,085,263,248</b>            | <b>11,273,219</b> |

Although the management is aware of the above anomaly, no evidence of any efforts being made to reconcile the two sets of records was availed for audit review.

In the circumstances, it has not been possible to confirm the accuracy and completeness of the receivables from exchange transactions balance of Kshs.164,785,287 as at 30 June 2017.

### **3.0 Un-approved Excess Expenditure**

Note 17 to the financial statements reflects an amount of Kshs.24,822,952 in respect of purchase of computers during the year under review against the approved budget allocation of Kshs.13,000,000 resulting to unapproved excess expenditure of Kshs.11,822,952. This is contrary to Section 68 (1) of the Public Finance Management Act, 2012 and Section 12 of State Corporations Act, Cap 446 of the laws of Kenya. The University was therefore in breach of the Law.

### **4.0 Cash and Cash Equivalents**

The cash and cash equivalent balance of Kshs.132,758,978 as at 30 June 2017, could not be confirmed as it contains receipts in bank statements not yet recorded in the cash books and payments in bank statement not yet recorded in the cash book amounting to Kshs.11,528,183 and Kshs.641,352 respectively and whose nature has not been explained as detailed below:

| <b>Account code</b> | <b>Account Name</b> | <b>Receipts in Bank not in Cash Book</b> | <b>Payment in Bank Statement not in Cash Book</b> |
|---------------------|---------------------|--|---|
|                     |                     | <b>Kshs.</b>                             | <b>Kshs.</b>                                      |
| 2001                | KCB Main account    | 6,186,870.00                             | 612,282.00  |

|      |                                   |                      |                   |
|------|-----------------------------------|----------------------|-------------------|
| 2005 | KCCT Madaraka PC Assembly Account | 0                    | 29,070.00         |
| 2011 | Equity Bank Collection            | 4,131,381.00         | 0                 |
| 2012 | Equity Development Account        | 1,209,932.00         | 0                 |
|      | <b>Total</b>                      | <b>11,528,183.00</b> | <b>641,352.00</b> |

Although the management is aware of the above anomaly, no efforts to reconcile the two (2) sets of records was availed for audit review.

In the circumstances, it has not been possible to confirm the accuracy, validity and completeness of the cash and cash equivalent balance of Kshs.132,758,978 as at 30 June 2017.

## 5.0 Prior Year Unresolved Matters

### Direct Procurement of Consultancy Services

As previously reported, the University directly procured consultancy services amounting to Kshs.157,326,957 from Jomo Kenyatta University of Agriculture and Technology (JKUAT) for the Proposed New Engineering Complex building without complying with the requirements set in Section 74 of the Public Procurement and Disposal Act, of 2005. As at 30 June 2014, the University had paid a total of Kshs.54,594,241 leaving a balance of Kshs.102,732,711. Although the University relied on Section 4 (2) (c) of the Act in the procurement of the consultancy services, reference was not made to Section 3 (1) of the same Act, where a Government or any Department of the Government is defined separately as a procuring entity.

Further, records held by the University indicate that a letter of notification of award was issued to the JKUAT Consultants by the Multimedia University on 2 August 2012. Available information also indicates that Vice Chancellor, Jomo Kenyatta University of Agriculture and Technology nominated a team of seven Consultants on 10 October 2012, two months after the notification of award. It is therefore not clear how the management of Multimedia University identified the consultants before formal appointment was made by the Vice Chancellor, JKUAT. It was however noted that the consultants raised fee note No.one (1) dated 27 November 2012 for Kshs.110,128,867 out of which the University has so far paid Kshs.54,594,241 or 49.5% of the fee note. No evidence of any report on the consultancy services, contract and the payment voucher was availed for audit review.

In the circumstances it has not been possible to confirm if the University got the value for its money in the above transaction.

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

*Report of the Auditor-General on the Financial Statements of Multimedia University of Kenya for the year ended 30 June 2017*

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 of my report, I have determined that there are no key audit matters to communicate in my report.

### **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 continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Institute 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 sustainability of service. 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 Institute to cease as a going concern.
- 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 Institute 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**

**04 July 2018**