

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Pwani University set out on pages 1 to 27, which comprise the statement of financial position as at 30 June 2017, 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 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 Pwani 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 Universities Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Qualified opinion and Other Matter sections 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. Refundable Deposits from Customers

Note 31 to the financial statements for the year ended 30 June 2017 reflects refundable deposits balance of Kshs.17,738,000, being caution money paid by students and which is refundable at the end of their studies. However, the supporting bank balance as at year end was Kshs.13,820,000, resulting to a shortfall of Kshs.3,918,000 which was deposited in Equity Bank Collection Account. It is not clear and the management has not explained why caution money totaling Kshs.3,918,000 was not deposited in the designated bank account.

As a result, the accuracy and completeness of Kshs.17,738,000 on refundable deposits from customers as at 30 June 2017 could not be confirmed.

2. Unsupported Expenditure

During the year under review, the University incurred expenditure amounting to Kshs.171,169,000 which was not supported as detailed below:

Item	Note	Amount (Kshs.)	Observations/Anomalies Noted
Repairs and Maintenance	9	21,476,000	The expenditure was incurred on repair and maintenance of property, equipment, motor Vehicles and other items. However, particulars of repairs carried out and details of what was repaired were not indicated in the supporting schedules availed for audit review.
Research Expenses	10	6,966,000	Particulars or full description of what was paid for were not indicated in the supporting schedules availed for audit review.
Operating Expenses	11	59,829,000	Particulars or full description of what was paid for and payees' names were not indicated in the supporting schedules availed for audit review. Further, Note 11 reflects motor vehicle fuel expenditure of Kshs.6,228,000 of which the vehicle worksheets indicating fuel purchased, drawn, consumed and running balance were not availed for audit verification contrary to Section 106 (5) (a) and 159 (2) of the Public Procurement and Asset Disposal Act, 2015 which requires recording of goods, works and services in registers in order to support and account for expenditure incurred.
Administrative Expenses	12	2,486,000	Particulars or full description of what was paid for per transaction and payees' names were not indicated in the supporting schedule availed for audit review
Teaching Expenses	13	20,841,000	Particulars or full description of what was paid for per transaction and payees' names for expenditure amounting to Kshs.19,504,000 were not indicated in the supporting schedules availed for audit review while payment vouchers for Kshs.4,822,103 were not availed for audit verification.
Catering Expenses	14	31,318,000	Particulars or full description of what was paid for per transaction and payees' names were not indicated in the supporting schedule availed for audit review.
Health Expenses	16	5,200,000	Particulars or full description of what was paid for per transaction and payees' names were not indicated in the supporting schedule availed for audit review
Students Expenses	17	19,797,000	Particulars or full description of what was paid for per transaction and payees' names were not indicated in the supporting schedule availed for audit review. Further, included in the amount is Kshs.3,202,070 which was not supported with quotations, work/ bus tickets, attendance register

			and signed payment schedules. Further, the expenditure includes Kshs.3,614,380 whose payment vouchers were not availed for audit verification. In addition, student expenses figure includes sitting allowances amounting to Kshs.125,800 of which the supporting attendance register was not availed for audit review. The sitting allowances also include Kshs.55,500 paid to leaders of Pwani University Students Association who did not attend meetings for which they were paid the allowances.
Farm Expenses	18	3,256,000	Particulars or full description of what was paid for per transaction and payees' names were not indicated in the supporting schedule availed for audit review. Further, payment vouchers Kshs.964,893 were not availed for audit review while Kshs.661,515 was not supported with stores ledgers/registers to confirm that the foodstuff/store items were taken on charge and issued for official use.
Total		171,169,000	

Consequently, the propriety of expenditure totalling Kshs.171,169,000 for the year ended 30 June 2017 could not be confirmed.

3. General Expenses

The statement of financial performance for the year ended 30 June 2017 reflects general expenses balance of Kshs.36,074,000 as detailed in note 22 to the financial statements. Out of this amount, support payment vouchers for Kshs.11,159,157 were not availed for audit verification as detailed below:

Account Code	Total Amount (Kshs.)	Amount Supported (Kshs.)	Amount not Supported (Kshs.)
Insurance Expenses	5,857,000	4,012,270	1,844,730
Legal Expenses	3,960,000	150,365	3,809,635
Staff Honoraria	3,575,000	3,306,230	268,770
Internet Connection	10,463,000	8,359,598	2,103,402
Departmental Meetings	4,596,000	3,835,380	760,620
Academic Regalia	2,372,000	0	2,372,000
Total	30,823,000	19,663,843	11,159,157

Consequently, the propriety of expenditure amounting to Kshs.11,159,157 for the year ended 30 June 2017 could not be confirmed.

4. Council Expenses

Note 19 to the financial statements for the year ended 30 June 2017 reflects tax allowances of Kshs.333,000 paid at rates of Kshs.6,000 and Kshs.7,000 without supporting basis nor tax receipts available in support of the same.

Consequently, the propriety of Kshs.333,000 on Council expenses for the year ended 30 June 2017 could not be confirmed.

5. Cash and Cash Equivalents

The statement of financial position as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.115,381,000 of which the following observations were made:

5.1 Bank Reconciliation Statements

5.1.1 Barclays Bank (K) Ltd Call Account

The statement of financial position as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.115,381,000, out of which a balance of Kshs.32,051,000 is held in Barclays Bank (K) Ltd call A/C. The bank reconciliation statement as at 30 June 2017 for this account reflects receipts in cash book not yet recorded in bank statement of Kshs.18,252,816. The management has not explained why these receipts have not been banked as at the time of this audit report.

5.1.2 Kenya Commercial Bank Ltd Collection Account

The statement of financial position as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.115,381,000, out of which Kshs.492,988 is a balance in Kenya Commercial Bank Ltd Collection Account. The bank reconciliation statement as at 30 June 2017 for the bank account reflects receipts in bank statement not yet recorded in cash book of Kshs.6,000. The management has also not explained the failure to record this amount in cash book.

5.2 Petty Cash

The statement of financial position as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.115,381,000. Included in the balance is petty cash balance of Kshs.160,000 while the Board of Survey Certificate on cash reflects a balance of Kshs.177,770, resulting to a variance of Kshs.17,770 which has not been explained nor reconciled.

As a result, the accuracy, validity, and completeness of the cash and cash equivalents balance of Kshs.115,381,000 as at 30 June 2017 could not be confirmed.

6. Receivables from Exchange Transactions

6.1 Variance in Debtors Ageing Analysis

The statement of financial position as at 30 June 2017 reflects receivables from exchange transactions balance of Kshs.129,316,000 after provision for doubtful debts of Kshs.2,148,000. However, the ageing schedule produced in support of this balance is for debtors balance of Kshs.175,060,000, resulting to a variance of Kshs.45,744,000. As such, the accuracy of the ageing analysis and validity of these debtors which are necessary for decision making on debt collection or write-off could not be ascertained.

6.2 Imprest Debtors

Note 24 to the financial statements for the year ended 30 June 2017 reflects imprest debtors' balance of Kshs.3,860,000 which was not recorded in imprests register, contrary to Section 91 (2) of the Public Finance Management (National Government) Regulations, 2015 which prescribes that the Accounting Officer shall ensure that the applicant's imprest details are recorded in the imprest register.

Further, included in the balance are imprests amounting to Kshs.667,310 which were six(6) months overdue, contrary to Section 93 (5) of the Public Finance Management (National Government) Regulations, 2015 which provides that a holder of a temporary imprest shall account or surrender the same within seven (7) working days after returning to duty station.

As a result, the propriety, accuracy, validity and completeness of imprests debtors of Kshs.3,860,000 for the year ended 30 June 2017 could not be confirmed.

6.3 Other Debtors

Note 24 to the financial statements for the year ended 30 June 2017 reflects other debtors balance of Kshs.1,921,000, out of which staff debtors balance of Kshs.451,345 related to staff who have left the service of the University. It is not clear and the management has not explained why the dues were not recovered prior to clearance of the officers.

Consequently, the validity and recoverability of Kshs.451,345 owed by staff who have since left the service of the University remains doubtful as at 30 June 2017.

7. Inventories

The statement of financial position as at 30 June 2017 reflects inventory balance of Kshs.6,033,000, out of which Kshs.2,155,697.60 is in respect to inventories issued from central store to various departments. However, stores ledgers or registers

indicating how the inventories were received and subsequently issued for use by the respective departments were not availed for audit verification. Further, stock sheets availed for audit review reflected inventories balance of Kshs.323,680 for farm inputs and feeds which was omitted from inventories balance of Kshs.6,033,000.

Consequently, the accuracy and completeness of inventories balance of Kshs.6,033,000 as at 30 June 2017 could not be confirmed.

8. Property, Plant and Equipment – Tangible

The statement of financial position as at 30 June 2017 reflects tangible plant, property and equipment – tangible balance of Kshs.1,546,433,000 as detailed in note 27 to the financial statements. The following observations were made:

8.1 Land

As reported in the year 2015/2016, the property, plant and equipment – tangible figure of Kshs.116,045,000 as at 30 June 2017 includes un-surveyed parcel of land measuring 239 hectares carried in the books at a cost of Kshs.47,000,000 that has reportedly been encroached upon by squatters. Available information indicates that the University went to court and obtained eviction order, which the squatters appealed against unsuccessfully. The records also indicate that a court bailiff has been appointed to effect the eviction order and which is yet to take place. Further, the value of three parcels of land measuring at least 22.3 acres situated in Kilifi Town has not been included in these financial statements. In addition, the land has been encroached upon by individuals, jua kali artisans and a benevolent fund. However, no documentary evidence of efforts to evict these squatters and take possession of the parcel of land was provided by the University.

Consequently, the accuracy and completeness equipment balance of Kshs.1,546,433,000 as at 30 June 2017 could not be confirmed. Further, the carrying amount of the property, plant and equipment is likely to be misstated due to unrecognized impairment losses.

8.2 General Equipment

Note 27 to the financial statements for the year ended 30 June 2017 reflects general equipment balance of Kshs.33,775,000, out of which Kshs.964,000 in respect of supply, delivery, installation and commissioning of a walkthrough metal detector to the University. However, the project was not in the procurement plan nor in the approved budget for the year in line with Section 45(3) (a) of the Public Procurement and Asset Disposal Act, 2015 which provides that ‘all procurement processes shall be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through an annual procurement plan’.

Consequently, the propriety of the expenditure of Kshs.964,000 on supply, delivery, installation and commissioning of a walkthrough metal detector for the year ended 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Pwani 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 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 matter described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Budgetary Controls and Performance

The following observations were made in respect of the University's budgetary controls and performance for the year ended 30 June 2017:

1.1 Revenue Budget

During the year under review, the University had a revenue budget of Kshs.978,681,367 against actual collections/receipts of Kshs.1,069,170,000 or 109.2%, resulting to net over collection of Kshs.90,488,633 or 9.2%, attributed mainly to non-budgeting for deferred grant income of Kshs.24,559,000 or 2.5% of total budget and failure to budget for rental revenue of Kshs.11,165,000 or 11.9% of the budget as detailed below:

Item	Budgeted Amount (Kshs)	Actual Revenue Collections (Kshs)	Revenue Shortfall (Kshs)	%
Government Grants and Subsidies	523,394,400	591,798,000	(68,403,600)	13
Rendering of Services	345,378,725	333,232,000	12,146,725	3.5
Income generating activities	55,081,757	57,492,000	(2,410,243)	4.4
Farm income	6,093,441	6,488,000	(394,559)	6.5
Guest house income	32,250,000	33,720,000	(1,470,000)	4.6
General incomes	4,474,600	-	4,474,600	100
Other incomes	12,008,444	10,716,000	1,292,444	10.8

Rental Revenue	-	11,165,000	(11,165,000)	100
Deferred Grant Income	-	24,559,000	(24,559,000)	100
Total	978,681,367	1,069,170,000	(90,489,633)	9.2

The table indicates that the University failed to collect revenue from general incomes which was budgeted at Kshs.4,474,600. This situation may have negatively impacted on the operating activities of the University and service delivery to students.

1.2 Recurrent Expenditure Budget

During the year under review, the University had a recurrent expenditure budget of Kshs.978,682,000 against actual expenditure of Kshs.1,061,923,000 or 108.5%, resulting to a net over expenditure of Kshs.83,241,000 or 8.5% as detailed below:

Account Name	Approved Budget (Kshs '000')	Actual Expenditure (Kshs. '000')	Over Expenditure (Kshs.'000')	Under Expenditure (Kshs.'000')	%
Compensation of Employees	711,557	776,066	64,509	-	9.1
Depreciation and amortization expenses	43,434	66,105	22,671	-	52.2
Repairs and maintenance-Assets	12,350	21,476	9,126	-	73.89
Research expenses	7,800	6,966	-	834	10.69
Operating expenses	57,277	59,829	2,552	-	4.5
Administration expenses	23,176	2,486		20,690	89.3
Teaching expenses	21,500	20,841		659	3.1
Catering expenses	30,090	31,318	1,228	-	104
Library expenses	2,540	1,486		1,054	41.5
Healthcare	3,465	5,200	1,735	-	50.1
Student expenses	17,277	19,797	2,520		14.6
Farm expenses	3,200	3,256	56		1.8
Other admin expenses	45,016	47,097	2,081	-	4.6
Totals	978,682	1,061,923	106,478	23,237	8.5

The approval of the University Council of the excess expenditure of Kshs.106,478,000 or 10.9% was not availed for audit review. The under expenditure of Kshs.23,237,000 is a result of possible over budgeting, which may have a negative impact on implementation of planned activities and service delivery to the University stakeholders.

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 to sustain its 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 University or 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 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 the University's ability to continue 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 as a going concern to continue 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

26 June 2018