

REPORT OF THE AUDITOR–GENERAL ON PWANI UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Pwani University set out on pages 25 to 50, which comprise statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in asset, 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 believe, 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 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 Universities Act, Cap 210B.

Basis for Qualified Opinion

1.0 Refundable Deposits from Customers

As reported previously, Note 31 to the financial statements for the year ended 30 June 2018 reflects refundable deposits balance of Kshs.16,096,000 being caution money paid by students and which is refundable at the end of their studies. However, the supporting bank balance for the year end reflected a balance of Kshs. 78,624 resulting to a variance of Kshs.16,017,376. Although the management has explained that this money was transferred to an interest earning bank account, it is not clear and the management has not explained why caution money totaling to Kshs.16,017,376 was not deposited in the designated bank account.

Consequently, the accuracy and completeness of Kshs.16,096,000 on refundable deposits as at 30 June 2018 could not be confirmed.

2.0 Property Plant and Equipment –Tangible

The statement of financial position as at 30 June 2018 reflects tangible property plant and equipment balance of Kshs.1,534,232,000 as detailed in note 27 to the financial statements. The following observations were made;

2.1 Land

As reported previously, the property plant and equipment –tangible figure land balance of Kshs.116,045,000 as at 30 June 2018 which includes unsurveyed parcel of land measuring 239 hectares carried in the books at a cost of Kshs.47,000,000. The

management through the court has managed to evict the squatters. Information availed for audit review indicated that the university is yet to obtain the title deed.

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 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.

In the circumstances, it has not been possible to ascertain the accuracy and completeness of land balance of Kshs.116,045,000 as at 30 June 2018 and that the same is fairly stated.

2.2 Dismantled Library Shelves

Note 27 to the financial statements for the year ended 30 June 2018 reflects furniture and fittings balance of Kshs.27,180,000 out of which new library shelves were acquired at a cost of Kshs.1,273,950, dismantled and mixed with old shelves. It was not possible to verify the new set of shelves nor ascertain the value after the mix with the old shelves.

As a result, the accuracy and completeness of additions of furniture and fittings amounting to Kshs.1,273,950 as at 30 June 2018 could not be confirmed.

2.3 Assets Fully Depreciated

The statement of financial position as at 30 June 2018 reflects property plant and Equipment balance of Kshs.1,534,232,000. However, it was observed that included in the assets register are items worth Kshs.88,492,858 whose net book value is zero meaning they have been fully depreciated and still in use. This is contrary to Section 67 of the International Public Sector Accounting Standards no 17 which states that the residual value and the useful life of an assets shall be reviewed at least annually and, if expectations differ from previous estimates, the changes shall be accounted for.

Under the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.1,534,232,000 as at 30 June 2018 could not be confirmed.

3.0 Receivable from Exchange Transaction

3.1 Students Debtors

Note 24 to the financial statements for the year ended 30 June 2018 reflects student's debtors amounting to Kshs.83,795,000. The university management has revised its policy which requires that all fees shall be paid up front. However, the management have failed to put in place guidelines and procedures to ensure that outstanding students debtors amounting to Kshs.83,795,000 are collected.

In the circumstances, it is not possible to confirm the recoverability of student's debtors balance of Kshs.83,795,000 as at 30 June 2018.

3.2 Variance in Debtors Ageing Analysis

The statement of financial position as at 30 June 2018 reflects comparable receivables from exchange transactions of Kshs.129,317,000 as at 30 June 2017 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 in a variance of Kshs.45,744,000.

As such, the accuracy of the comparative ageing analysis and validity of these debtors which are necessary for decision making on debt collection or write-off could not be ascertained as at 30 June 2018.

3.3 Other Debtors

As previously reported, note 24 to the financial statements for the year ended 30 June 2018 reflects other debtors balance of Kshs.7,455,000 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 2018.

4.0 Cash and Cash Equivalent

The statement of financial position as at 30 June 2018 reflects cash and cash equivalent balance of Kshs.197,266,000. Out of which a balance of Kshs.13,531,000 is held in Keya commercial bank Dollar account. However, the bank reconciliation statement availed for audit reflected a balance Kshs.13,537,707 resulting to unexplained nor reconciled variance of Kshs.6,707

Consequently, the accuracy and completeness of cash and cash equivalent balances of Kshs.197,266,000 as at 30 June 2018 could not be confirmed.

5.0 Operating Expenses

The statement of financial performance for the year ended 30 June 2018 reflects operating expenses balance of Kshs.73,069,000. Out of this amount, Kshs.6,005,000 was spent on fueling of motor vehicles as detailed in note 11 to the financial statements.

Records availed for audit review indicated that the University incurred an expenditure of Kshs.6,898,406 on the same resulting to an unposted expenditure of Kshs. 893,406.

Further, records availed for audit indicate that a local company was paid Kshs.6,508,271 for supply of fuel, oil, lubricants and LPG to the University on diverse dates. However, no local purchase orders for quantities required were raised and the payment vouchers were

not supported with invoices from by the supplier for goods and services delivered or consumed.

In addition, fuel, oils and lubricants amounting to Kshs.2,357,086 was not supported with vehicle work tickets to confirm the same had been drawn and consumed for official and authorized journeys.

Consequently, the accuracy and the propriety of Kshs.6,005,000 incurred on fuel of motor vehicles for the year ended 30 June 2018 could not be confirmed.

6.0 Inventory

Note 25 to the financial statements for the year ended 30 June 2018 reflects inventory balance of Kshs.4,679,000. However, inventory valuation ledger availed reflects a balance of Kshs.6,275,015.81 resulting in unreconciled nor explained variance of Kshs.1,596,015 as shown below;

Inventory	Financial Statements Kshs.	Inventory Valuation Ledger Kshs.	Variance Kshs.
Farm	166,000.00	170,110.00	(4,110.00)
Cleaning	303,000.00	174,194.16	128,805.84
Consumables	0	145,161.32	(145,161.32)
Electrical	391,000.00	348,035.72	42,964.28
Food	655,000.00	2,362,729.99	(1,707,729.99)
MTCE	307,000.00	302,340.01	4,659.99
Meds	1,131,000.00	1,279,163.71	(148,163.71)
Stationery	1,726,000.00	1,493,280.90	232,719.10
Total	4,679,000.00	6,275,015.81	(1,596,015.81)

Consequently, the accuracy and completeness of inventory balance of Kshs.4,679,000 as at 30 June 2018 could not be confirmed.

7.0 Trade and Other Payables from Exchange Transactions.

The statement of financial position as at 30 June 2018 reflects trade and other payables from exchange transactions balance of Kshs.208,054,000 as detailed in note 30 to the financial statements. Included in the balance are trade creditors balance of Kshs.64,515,000 which the management failed to provide individual suppliers statements and reconciliations.

In absence of individual supplier's statement and reconciliation it has not been possible to confirm the validity, accuracy and completeness of trade creditors balance of Kshs.64,515,000 as at 30 June 2018.

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. There are no Key Audit Matters to report in the year under review.

Other Matter

1. Budgetary Controls and Performance

During the year under review, the University had a budgeted expenditure amounted to Kshs.1,099,848,000 against actual expenditure of Kshs.1,272,646,000 resulting to an and overall over expenditure of Kshs.172,804,000 as summarized below;

Item	Budgeted Amount	Actual	over	under	%
	(Kshs.000)	(Kshs.000)	(Kshs.000)	(Kshs.000)	
Compensation of Employees	838,889	941,442	102,553		12.22
Depreciation and amortization expenses		69,834	69,834		
Repairs and maintenance-Assets	26,100	22,975		3,125	11.97
Research expenses	7,800	6,223		1,577	20.22
Operating expenses	65,270	73,069	7,799		11.95
Administration expenses	3,500	4,681	1,181		33.74
Teaching expenses	40,820	33,495		7,325	17.94
Catering expenses	35,300	35,443	143		0.41
Library expenses	3,700	1,580		2,120	57.30
Healthcare	4,350	4,795	445		10.23
Student expenses	20,368	19,956		412	2.02
Farm expenses	4,500	4,353		147	3.27
Other admin expenses	49,250	54,800	5,550		11.27
Totals	1,099,847	1,272,646	187,505	14,706	

The approval of the University Council of the excess expenditure of Kshs.187,505,000 was not availed for audit review. The under expenditure of Kshs.14,706,000 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.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Conclusion on Compliance and Effectiveness 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 conclusion

1.0 General Equipment

As reported previously, note 27 to the financial statements for the year ended 30 June 2018 reflects general equipment balance of Kshs.28,932,000, out of which Kshs.964,000 in respect of supply, delivery, installation and commissioning of a walkthrough metal detector to the University in the year 2016/2017. However, the project was not in the procurement plan nor in the approved budget for the year 2016/2017 in line with Section 45(3) 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 regularity of the general equipment balance of Kshs.964,000 as at 30 June 2018 could not be confirmed.

2.0 Imprest Debtors

Note 24 to the financial statement for the year ended 30 June 2018 reflects imprest debtors amounting to Kshs.7,613,000 out of which Kshs.2,827,400 was issued in the year 2016. This contravened Section 93(5) of the Public Finance Management (National Government) Regulations 2015 which requires that a holder of a temporary imprest shall account or surrender the same within (7) seven working days after returning to duty station.

Further, it was observed that some officers have been issued with more than one imprests worth Kshs.1,578,700. This contravened Section 93(4) of the Public Finance Management (National Government) Regulations, 2015 which provides that before issuing a temporary imprest the accounting officer shall ensure that the applicant has no outstanding imprest.

As a result, the management is in breach of the law.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance

as to 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.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

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 procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained in all material respects.

The matters reported are limited to the deficiencies identified during the audit that I have concluded are material to be reported. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this review.

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 the International Public Sector Accounting standards (accrual Basis) and for maintaining effective internal control as management determines is necessary to enable 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 Authority 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

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 of Kenya. 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 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.
- 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. 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.
- 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 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

28 December 2018