

REPORT OF THE AUDITOR-GENERAL ON PWANI UNIVERSITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Pwani University set out on pages 30 to 58, which comprise statement of financial position as at 30 June, 2019, 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 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Pwani University as at 30 June, 2019, 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 and the Universities Act, 2012.

Basis for Qualified Opinion

1.0 Going Concern

The statement of comprehensive income for the year ended 30 June, 2019 reflects a deficit of Kshs.41,024,000, resulting in accumulated surplus of Kshs.168,764,000 down from Kshs.209,788,000 reported in year 2017/2018. Further, the current liabilities balance of Kshs.420,608,000 exceeded the current assets balance of Kshs.345,218,000, resulting in a negative working capital of Kshs.75,390,000 as at 30 June, 2019. Under the circumstances, the financial statements have been prepared on a going concern basis.

If measures are not put in place to reverse the trend, the University is likely to face financial challenges in future.

2.0 Property, Plant and Equipment

The statement of financial position and as disclosed under Note 25 to the financial statements reflects property, plant and equipment balance of Kshs.1,687,895,000. The following observations were made:

2.1 Land

As reported previously, included in the property, plant and equipment figure of Kshs.1,687,895,000 is land valued at Kshs.116,045,000. This includes an un-surveyed

parcel of land measuring 239 hectares carried in the books at a cost of Kshs.47,000,000. However, information availed for audit review indicated that the University is yet to obtain the title deed for the parcel of land.

Consequently, the ownership of land balance of Kshs.116,045,000 as at 30 June, 2019 could not be confirmed.

2.2 Fully Depreciated Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.1,687,895,000. Included in the assets register are three thousand and fifty-nine (3,059) assets worth Kshs.252,043,000 whose net book value is Nil. The assets have not been revalued to reflect their fair carrying value in accordance with the requirements of International Public Sector Accounting Standards (IPSAS) 17.

In the circumstance, the value of the property, plant and equipment may be understated.

3.0 Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.93,095,000. The following observations were made:

3.1 Students Debtors

Reflected under Note 22 to the financial statements is student debtors amounting to Kshs.73,955,000 out of which debtors amounting to Kshs.18,248,439 related to institutional-based programme for the year 2018/2019. The programme is being phased out by the University and the recoverability of these debts is in doubt. The University Management had not made provisions for doubtful debts relating to the account.

In the circumstances, recoverability of student debtors balance of Kshs.73,955,000 is in doubt.

3.2 Other Debtors

Reflected under Note 22 to the financial statements for the year ended 30 June, 2019 is other debtors balance of Kshs.4,308,000. This includes an amount of Kshs.134,358 relating to former staff. It is not clear and the Management has not explained why the dues were not recovered prior to clearance of the officers.

Consequently, the recoverability of Kshs.134,358 owed by former staff is in doubt.

4.0 Revenue from Rendering Services

The statement of financial performance reflects Kshs.363,417,000 in respect of revenue from rendering services. Included in this balance is tuition fees revenue amount of Kshs.225,122,000 comprising Kshs.90,235,000 for Joint Admission Board and Kshs.134,887,000 for self-sponsored programme. However, audit examination of ledger revealed that tuition fees revenue was recognized based only on students who paid the tuition fees instead of registered students for the semesters. This is contrary to International Public Sector Accounting Standard (IPSAS) No. 9 which provides that

revenue is recognized when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. The accounting treatment also violates the University's own policy on recognition of revenue from rendering services which states that, "student fees are recognized when the student register for semester".

Consequently, the accuracy and completeness of revenue from rendering services figure of Kshs.363,417,000 for the year ended 30 June, 2019 could not be confirmed.

5.0 Trade and Other Payables from Exchange Transactions

The statement of financial position and as detailed under Note 28 to the financial statements reflects trade and other payables from exchange transactions balance of Kshs.403,294,000. The following anomalies were observed:

5.1 Student Fees

Included in the trade and other payables balance of Kshs.403,294,000 is student fees amount of Kshs.49,030,000, which relates to fees paid in advance. The student fees include an amount of Kshs.7,020,522 owed to students who registered between the period 2008 and 2013 and who were supposed to have graduated. It is not clear why the fee was not refunded upon clearance or why it was not absorbed as part of the fees for courses taken.

As a result, the accuracy, completeness and obligation of student fees of Kshs.7,020,522 as at 30 June, 2019 could not be ascertained.

5.2 Other Liabilities

The trade and other payables balance of Kshs.403,294,000 includes other liabilities amount of Kshs.157,653,000. The other liabilities balance includes unallocated receipts amount of Kshs.19,472,000 which Management has attributed to insufficient details of the beneficiaries. As a result, revenue from rendering services is understated while student debtors are overstated by Kshs.19,472,000 for the year ended 30 June, 2019.

Further, included in other liabilities balance of Kshs.157,653,000 are various conditional donor grants as detailed below:

Grant	Amount (Kshs.)
NRF Project Funds	45,165,000
African Research KEMRI	14,219,000
Research Fund - Niche Ken	1,028,000
Research Fund-BMGF	5,650,000
NRF Grant	6,158,000
FAO Research Grants	2,240,000
Total	74,460,000

It was not clear why the conditional grants were recognized as liabilities whereas there was no evidence that either the grant condition had been violated or the amounts related to unspent balances from completed projects and which are supposed to be refunded to

the donors/sponsors. The classification as liabilities does not comply with International Public Sector Accounting Standard (IPSAS) No.28 on the definition of financial liability.

Consequently, the accuracy, and completeness of other liabilities amount of Kshs.157,653,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Pwani University Management in accordance with ISSAI 130 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

Budgetary Controls and Performance

During the year under review, the University had a budgeted expenditure amounting to Kshs.1,210,115,000 against actual expenditure of Kshs.1,250,972,000 resulting to an over expenditure of Kshs.40,857,000 or 3% of the final budget. However, supporting evidence for prior approval by the University Council, the Cabinet Secretary responsible for higher education and The National Treasury for the excess expenditure of Kshs.40,857,000 was not availed for audit verification. This is contrary to Section 12 of the State Corporations Act, 2012 Revised Edition which states that a state corporation shall not incur any expenditure for which provision has not been made in an annual estimate prepared and approved without the prior approval in writing of the Minister and the Treasury.

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 and Qualified Opinion sections 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

Staff Honoraria

During the year under audit, a total of Kshs.3,098,000 was paid to various staff as honoraria. However, the allowance was paid in cash outside the payroll system and was not among the allowances listed in Salaries and Remuneration Commission Circular Ref. No: SRC/ADM/CIR/1/13 Vol. III (126) of 10th December 2014. Further, the honoraria payment was not subjected to income tax. Non-compliance with tax rules exposes the University to penalties and fines by Kenya Revenue Authority.

Consequently, the University made an irregular payment of honoraria amounting to Kshs.3,098,000 and the Management is in breach of the Law.

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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT SYSTEMS AND GOVERNANCE

Conclusion

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 audit 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.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 the Council

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 Management is aware of the intention to liquidate the University or to cease operations.

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.

The Council is responsible for overseeing the University's financial reporting process, reviewing the effectiveness of how Management 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 overall 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 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.

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 noncompliance. 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 applicable 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 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

26 April, 2021