

# REPORT OF THE AUDITOR-GENERAL ON RONGO UNIVERSITY 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 the Rongo University set out on pages 39 to 78, 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 summary 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 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 Rongo 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, except for the matter described in the Other Matter section of my report, based on the procedures performed, 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

#### 1.0 Statement of Comparison of Budget and Actual Amounts

Included in the statement of comparison of budget and actual amounts are adjustments amounting to Kshs.345,119,892 on income and Kshs.327,766,763 on expenditure which have not been explained by management. Explanations for material variances have also not been documented as required by International Public Sector Accounting Standards 24. The actuals are also at variance with the figures in the statement of financial performance as shown below:

Item	Statement of Budget and Actual (Kshs)	Statement of Financial Performance (Kshs)	Variance (Kshs)
Income	768,080,541	766,601,430	1,479,111

Employee costs	479,238,608	478,110,363	1,128,245
General expenses	111,727,621	111,027,025	700,596
Council expenses	16,934,542	15,196,505	1,738,037
Academic costs	103,960,761	101,200,400	2,760,361
Repairs and maintenance	17,104,548	14,490,084	2,614,464

The percentage variances are also not correct.

Consequently, the accuracy and completeness of the statement of comparison of budget and actual amounts could not be confirmed.

## 2.0 Statement of Cash flows

A review of the statement of cash flows revealed the following anomalies:

- i) The figure for purchase of intangible asset indicated as Kshs.696,000 differs with the figure in note 16 to the financial statements shown as Kshs.660,000.
- ii) The sum of purchase of non-current asset, development expense, development expenses TTI and retention fees paid is Kshs.160,252,945 which differs with the additions of Kshs.189,122,412 in note 17 to the financial statement resulting in an unexplained difference of Kshs.28,869,467.
- iii) The net cash flow from operating activities is indicated as Kshs.10,533,395 which differs with the amount of Kshs.21,622,951 in note 25 to the financial statements.

Consequently, the accuracy and completeness of the statement of cash flows could not be confirmed.

## 3.0 Revaluation Surplus

The statement of net assets indicates that the revaluation surplus was Kshs.403,576,915. However, a computation of the expected revaluation surplus for the year based on the asset valuation report indicates a different figure as shown below:

	<b>Kshs.</b>
Revaluation balance as per the valuation report for all assets	766,407,057
Less: the opening net book value (as at 30 June 2016)	(391,618,339)

Expected valuation surplus	374,788,718
<b>Reported valuation surplus</b>	<b>403,576,915</b>
<b>Variance</b>	<b>28,788,197</b>

The above variance has not been explained.

In addition, a transfer from the revaluation surplus to accumulated surplus has not been done in the current year for consistency with the treatment in previous years. Consequently, the accuracy of the revaluation surplus of Kshs.403,576,915 could not be confirmed.

#### **4.0 Caution Money**

Note 19 to the financial statements indicates that caution money as at 30 June 2017 amounted to Kshs.5,800,000. However no schedule of the students and amounts due to them has been provided for audit review.

Consequently, the accuracy of the caution money totaling Kshs.5,800,000 could not be confirmed.

#### **5.0 Student Debtors**

**5.1** Note 12 to the financial statements indicates that student debtors as at 30 June 2016 totaled Kshs.200,119,936. However, the aged analysis of the debtors provided to support the amount had credit balances amounting to Kshs.28,815,308. Further, a provision for doubtful debts of Kshs.4,521,583 was not supported by workings based on the university's debtor's policy. The ledger amounts also indicates the student debtors as totaling Kshs.131,842,174 resulting in an unexplained variance of Kshs.68,277,762.

Consequently, the accuracy of the student debtors brought forward figure of Kshs.200,119,936 could not be confirmed.

#### **5.2 Staff Debtors**

Note 12 to the financial statements indicates that staff debtors as at 30 June 2017 totaled Kshs.4,898,916. These were amounts that had been issued as imprests and not accounted for as at the year end as per the requirements of the Public Finance Management Act, National Government Regulations 2015 section 93 (4) (b). In addition, staff were issued with multiple imprests contrary to section 93 (5) of the same Act. Consequently, the University was in breach of the law.

#### **6.0 General Expenses and Repairs and Maintenance Costs**

for the year ended 30 June 2017. However, payment vouchers totaling Kshs.3,162,002 relating to these two expense items were not availed for audit review. Consequently, the propriety of the expenditure amounting to Kshs.3,162,002 could not be confirmed.

## 7.0 Employee Costs

Note 5 to the financial statements indicates employee costs as Kshs.478,110,363 for the year under review. However, there were variances between the ledger amounts and the financial statement figures for three components that make up the employee costs as shown below.

<b>Employee cost component</b>	<b>Financial Statement Figure (Kshs)</b>	<b>Ledger Amounts (Kshs)</b>	<b>Variance (Kshs)</b>
Salaries & wages	235,246,194	233,044,046	2,202,148
Pension and provident	36,845,920	35,376,886	1,469,034
Other Allowances	30,124,033	30,366,866	(242,833)
<b>Total</b>			<b>3,428,349</b>

Consequently, the accuracy of employee costs of Kshs.478,110,363 could not be confirmed.

## 8.0 Academic Costs

Included in the statement of financial performance is academic costs amounting to Kshs.101,200,400. However, the supporting ledgers indicated a figure of Kshs.89,997,825 resulting in an unexplained variance of Kshs.12,202,575. Consequently, the accuracy of academic expenses of Kshs.101,200,400 could not be confirmed.

## 9.0 Property, Plant and Equipment

The statement of financial position indicates the value of property, plant and equipment as at 30 June 2017 amounting to Kshs.1,299,106,042. A review of the supporting documentation relating to this component revealed the following:

- i) A borehole valued at Kshs.1,371,882 was classified as a building instead of an infrastructure asset contrary to IPSAS 17.
- ii) The asset valuation report as at 30 June 2017 showed a total value of Kshs.766,407,057 for all asset categories. However, the figures used in the financial statements under note 17 differs with the amounts in the valuation report.

Consequently, the accuracy of property, plant and equipment figure of Kshs.1,299,106,042 as at 30 June 2017 could not be confirmed.

## 10.0 Statement of Changes in Net Assets

During the year under review, adjusting journals amounting to Kshs.50,370,130 affecting various items of assets and expenditure on one hand and the accumulated surplus on the other were done. However, this amount has not been reflected in the statement of changes in net assets.

Consequently, the accuracy of the statement of changes in net assets could not be confirmed.

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

#### 1. Budget Performance Analysis

A comparison of budget and actual figures revealed variances as detailed below;

Item	Budget (Kshs)	Actual Amounts (Kshs)	Variance (Kshs)	Variance (%)
<b>Income</b>	<b>742,880,212</b>	<b>766,601,430</b>	<b>(25,200,329)</b>	<b>-3%</b>
Employee costs	478,669,839	478,110,363	559,476	0%
General expenses	119,060,168	111,027,025	8,033,143	7%
Council expenses	17,000,000	15,196,505	1,803,495	11%
Academic costs	110,844,163	101,200,400	9,643,763	9%
Repairs and maintenance	17,306,042	14,490,084	2,815,958	16%
<b>Total</b>	<b>742,880,212</b>	<b>720,024,377</b>	<b>22,855,835</b>	
<b>Capital grant</b>	<b>153,987,000</b>	<b>139,788,896</b>	<b>14,198,104</b>	<b>9%</b>

Analysis of the University's budget against the actual figures revealed that there was under-expenditure in general expenses, academic costs, repairs and maintenance as well as repairs and maintenance. The underutilization of capital funds of 9% meant that the projects would not be completed on time and thus value for money may not have been realized.

## **2. Failure to Open an Account for Research Funds**

During the year under review, Rongo University received research grants from McKnight Foundation amounting to Kshs.7,425,000 for improving food and livelihood security in East Africa using multiple stress tolerant sorghum cultivars project. However, the funds were controlled through the Rongo University PSSP KCB current account number 1130114511 and not a separate Institutional Bank account as per the grant agreement paragraph eight (8).

## **3. Stalled Project**

Included in work-in-progress amount are payments totaling Kshs.18,311,762 made to a contractor for the construction of a hostel block. The contract sum for the project was Kshs.95,571,019 awarded on 18 May 2015. However, on 28 July 2015 after commencement of the initial works, the National Construction Authority (NCA) suspended the works due to lack of a compliance certificate. The works resumed on 17 November 2015 after the contractor had incurred additional costs due to idle labour and equipment. The contract was subsequently terminated in July 2016 due to employer's failure to honor payment certificates issued for work done as at that time. This discontinuation of the works meant that the project has not realized its objectives and there was no value for money.

## **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 sustainability of services and using the going concern basis of accounting unless the management either to liquidate the university or 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.

Those charged with governance are responsible for overseeing the University 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 offering 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.

- 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**

**17 September 2018**