

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Rongo University set out on pages 37 to 78, which comprise the 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 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 Rongo University as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Universities Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Revenue from Exchange Transactions

The statement of financial performance reflects revenue from exchange transactions of Kshs.410,395,906 which, as reflected under Note 4 to the financial statements, includes an amount of Kshs.62,759,811 representing accrued fees and other related charges. However, the amount was not adequately supported with details of students and respective amounts per student.

Consequently, the accuracy and completeness of accrued fees and other related charges amount of Kshs.62,759,811 could not be confirmed.

2. Staff Advances

As disclosed in Note 12 to the financial statements, included in the receivables from exchange transactions balance of Kshs.101,598,106 reflected in the statement of financial position is an amount of Kshs.3,514,568 relating to staff debtors. The amount, however, excludes outstanding staff advances of Kshs.513,550 as at 30 June, 2019. No reason was provided for the omission.

Consequently, the accuracy and completeness of the staff debtors balance of Kshs.3,514,568 could not be confirmed.

3. General Expenses

Included in the general expenses balance of Kshs.104,474,978 reflected in the statement of financial performance are payments totalling Kshs.1,135,250 which were not supported by documents such as payment vouchers, surrender vouchers and schedules.

Consequently, the propriety and validity of the expenditure of Kshs.1,135,250 could not be confirmed.

4. Council Expenses

Included in the Council expenses amount of Kshs.15,485,833 reflected in the statement of financial performance are payments totalling Kshs.1,210,045 which were not adequately supported by relevant documents including car or taxi hire receipts for journeys made by Council Members while attending Council meetings.

Consequently, the propriety and validity of the expenditure of Kshs.1,210,045 could not be confirmed.

5. Failure to Disclose Material Uncertainty in Relation to Sustainability of Services

During the year ended 30 June, 2019 the University recorded a deficit of Kshs.20,691,542. In addition, the total current liabilities balance of Kshs.366,807,071 exceeded the total current assets balance of Kshs.319,107,108 resulting into a negative working capital of Kshs.47,699,963 as at 30 June, 2019. This precarious financial position is an indication of the existence of a material uncertainty which may cast significant doubt on the University's ability to sustain its services and to meet its obligations as and when they fall due in absence of financial support from the Government. However, the material uncertainty in relation to sustainability of services and any mitigating measures put in place by the University Management to reverse the undesirable precarious financial position have not been disclosed in the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Rongo 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. I have determined that there are no other key audit matters to communicate in my report.

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 section 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

1. Incomplete Water Treatment Plant Project

Rongo University entered into a contract with a contractor on 1 October, 2014 for the construction of a water treatment plant for a sum of Kshs.80,388,340. The project was to be completed and handed over to the University by 31 January, 2015. However, physical verification in October, 2019 revealed that the project was not complete and no request for extension was made by the contractor after the expiry of the contract period.

In the circumstances, there is no value for money for the expenditure incurred as the project has not been completed and put to use.

2. Construction of Lecture Halls

The University entered into a contract with a contractor on 15 December, 2016 for the construction of Lecture Halls at a contract sum of Kshs.15,417,264. The project was to be carried out within 24 weeks and be completed by 14 June, 2017. However, physical verification in October, 2019 revealed that the project was not complete and no request for extension was made by the contractor after the expiry of the contract period.

In the circumstances, there is no value for money for the expenditure incurred on the project.

3. Un-Remitted Statutory Deductions

As disclosed in Note 19 to the financial statements, included in the payables from exchange transactions balance of Kshs.333,004,482 reflected in the statement of financial position are payroll creditors of Kshs.135,163,786 which include unremitted Pay As You Earn (PAYE) deductions of Kshs.117,947,531. No explanation was provided for failure to remit the PAYE deductions to the Kenya Revenue Authority as required by Section 130 of the Income Tax Act which states that Pay As You Earn deducted from employees' earnings should be remitted by the tenth day of the month following the deduction. Tax offences and non-remittance of statutory deductions can attract punitive penalties and interest which would be an unnecessary cost to the public.

4. Casual Employees

The statement of financial performance reflects employee costs of Kshs.653,018,521 which, as disclosed in Note 5 to the financial statements, includes salaries and wages totalling Kshs.307,789,277 of which an amount of Kshs.15,210,832 was paid to ninety-one (91) casual workers. A review of the payroll revealed that the casual employees had been in service with the University for more than three (3) months contrary to the provisions of Section 37(b) of the Employment Act, 2007 on conversion of casual employment to term contract. The University Management was therefore in breach of the law.

5. Regional Diversity

A review of personnel records and the main payroll revealed that majority of the University staff were from one dominant ethnic community contrary to Section 7(1) and

(2) of the National Cohesion and Integration Act, 2008 which states that, “all public establishment shall seek to represent the diversity of the people of Kenya in employment”.

6. Failure to Comply with a Third Net Salary Rule

A review of monthly payrolls for the financial year 2018/2019 revealed that seventy-eight (78) employees earned salaries which were less than a third of their respective basic salaries. This is contrary to the provisions of Section 19 (3) of the Employment Act, 2007 which states that, “without prejudice to any right of recovery of any debt due, and notwithstanding any written law, the total amount of deductions which may be made by the employer from the wages of his employees shall not exceed two thirds of such wages”.

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 AND GOVERNANCE

As required by Section 7(1)(a) of the Public Audit Act, 2015, 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 processes and systems of internal control, risk management and overall 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 University Council

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 maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the University’s ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of intention to terminate 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 University's 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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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 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. 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.

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 non-compliance. 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 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 sustaining 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 Rongo 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

06 July, 2021