

REPORT OF THE AUDITOR-GENERAL ON SOUTH EASTERN KENYA UNIVERSITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of South Eastern Kenya University set out on pages 1 to 37, 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 the 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 South Eastern Kenya 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 Universities Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Variance Between the Financial Statements and Trial Balance

The statement of financial performance reflects total revenue from non-exchange transactions of Kshs.776,028,240;(2018-Kshs.948,324,778) which differs from the trial balance figure of Kshs.721,585,725 resulting into an unexplained variance of Kshs.54,442,515. Further, the statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.405,410,748;(2018-Kshs.424,164,692). As disclosed in Note 22 to the financial statements, included in the balance is recurrent creditors suppliers amount of Kshs.21,095,694 which differs from the trial balance amount of Kshs.22,762,479 resulting in an unexplained variance of Kshs.1,666,785.

In the circumstance, the accuracy of the financial statements as presented could not be confirmed.

2.0 Property Plant and Equipment

As previously reported, the statement of financial position reflects a property, plant and equipment balance of Kshs.2,878,023,194;(2018-Kshs.2,788,059,386). As disclosed in Note 15 to the financial statements, included in the balance are three (3) parcels of land valued at Kshs.1,036,600,000 which are not registered in the name of the University as detailed below: -

Parcel	Size (Hectares)	Amount (Kshs.)
LR NO 13529 (Grant IR 5739) situated in Yatta, Kitui County	4047.7	300,000,000
LR NO. 209/10350 (Grant IR 52199) situated in Nairobi	0.783	441,600,000
Land ref. no. 12970 situated in West of Emali Township in the name of trustees of UKAI; David Muoka Mutiso, Kyale Mwendwa, Musembi Mbathi and Mathew Muli	1990.7	295,000,000
Total	6,039.183	1,036,600,000

In addition, the University was in possession of three (3) other parcels of land of undetermined value not incorporated in the financial statements as detailed below:

Parcel	Description
Kitui Town (0.845 Hectares)	This parcel was donated to the University by the then Municipal Council of Kitui on 02 March, 2011 and an administration and tuition block is being developed on it.
Wote Town (30 Acres)	The land was donated by the County Government of Makueni on 27 July, 2016 and an administration and tuition block is being developed by the University on it.
Mtito Andei Town (20 Acres)	The University has a certificate of ownership dated 29 July, 2013 signed by the District Land Adjudication & Settlement Officer, Kibwezi District. The land is being developed by the University and consists of a library and a tuition block.

Another two (2) parcels of land belonging to the University under land registration numbers Mwingi/Nzeluni/1970 and Mwingi/Mwingi/5713, measuring 3.26 and 6.09 hectares and whose title deeds were issued on 13 July, 2017 and 22 September, 2015 respectively, had not been valued. Although the Management wrote to the Lands and Physical Planning Office of the County Government of Kitui on 26 April, 2018 requesting for valuation, no evidence was provided of follow up and progress made in getting the land parcels valued.

In the circumstances, it has not been possible to ascertain the accuracy and ownership of the reported property, plant and equipment balance of Kshs.2,878,023,194.

3.0 Material Uncertainty Related to Sustainability of Services

The statement of financial performance reflects a deficit of Kshs.42,084,280;(2018-Kshs.53,109,674) thereby increasing the accumulated loss to Kshs.178,096,025;(2018-Kshs.136,011,745). Further, the current liabilities of Kshs.477,731,601 exceeded the current assets of Kshs.304,581,011 resulting into a negative working capital of Kshs.173,150,590. The negative trend casts doubt on the ability of the University to continue to sustain services. The material uncertainty in relation to sustainability of services and any mitigating measures put in place by the University Management to reverse the undesirable trend has 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 South Eastern Kenya 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 key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2019. Further, some of the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

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 matter 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 of Conclusion

Delayed Completion of Buildings

In March, 2017, the University awarded three (3) contracts with an estimated completion date of March, 2019. The contracts were for the construction of the College of Humanities at the main campus for a contract sum of Kshs.423,000,000, construction of Kitui town campus at a contract sum of Kshs.248,942,307 and construction of Wote town campus at a contract sum of Kshs.256,694,261. However, the audit inspection of the Projects in September, 2019 revealed that the completion of the Projects was behind schedule and the works were at 65%,62% and 70% completion stages respectively. No satisfactory explanation was provided for the delay in completing the three Projects despite the contract completion date of March, 2019 having lapsed.

In the circumstances, the project completion costs are likely to escalate and the University may not get value for money from the projects.

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

Conclusion

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 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 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 overall 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 overall 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 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

13 July, 2021