

REPORT OF THE AUDITOR-GENERAL ON SOUTH EASTERN KENYA UNIVERSITY (SEKU) FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of South Eastern Kenya University (SEKU) set out on pages 30 to 68 which comprise the statement of financial position as at 30 June 2018, 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 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 South Eastern Kenya 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, 2012.

Basis for Qualified Opinion

1.0 Accuracy of Financial Statements

The statement of cashflows for the year ended 30 June 2018 reflect a decrease in revenue reserve balance of Kshs.9,526,749 while note 26 to the financial statement reflects a decrease of Kshs.53,860,697 on the same item resulting to unreconciled variance of Kshs.44,333,948.

In the circumstances, the accuracy of the financial statements balances as at 30 June 2018 could not be confirmed.

2.0 Property Plant and Equipment

Note 15 to the financial statements reflected a property plant and equipment balance of Kshs.2,788,059,386 for the year ended 30 June 2018 which included Kshs.1,036,600,000 for three parcels of land as shown below.

| Parcel | Size | Amount (Kshs) |
|--|-----------------|----------------------|
| LR NO 13529 (Grant IR 5739) situated in Yatta, Kitui County | 4047.7 Hectares | 300,000,000 |

| Parcel | Size | Amount (Kshs) |
|---|-----------------------------|----------------------|
| LR NO. 209/10350 (Grant IR 52199) situated in Nairobi | 0.78315 Hectares | 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 Hectares | 295,000,000 |
| TOTAL | 6,039.18315 Hectares | 1,036,600,000 |

However, as reported in the previous years, the above parcels of land had not been registered in the name of the University as at 30 June 2018. In addition, the University was in possession of three other parcels of land of an undetermined value as shown below which did not have title deeds.

| Parcel | Description |
|-----------------------------|---|
| Kitui Town (0.845 ha) | Awarded by the then Municipal Council of Kitui on 02 March 2011. This land is being developed by the University; and consists of an administration and tuition block. |
| Wote Town (30 acres) | Donated by the County Government of Makueni on 27 July 2016 This land is being developed by the University; and consists of an administration and tuition block. |
| Mtito Adei Town (20 acres) | The University has a certificate of ownership dated 29 July 2013 signed by the District Land Adjudication and Settlement Officer, Kibwezi District. This land is being developed by the University; and consists of a library and a tuition block. |

Further, two other University parcels of land registration numbers Mwingi/Nzeluni/1970 and Mwingi/Mwingi/5713 measuring 3.26 Hectares and 6.09 Hectares respectively whose title deeds were issued to the University on 13 July 2017 and 22 September 2015 respectively had not been valued. However, the management wrote to the County Executive, Lands and Physical Planning on 26 April 2018 requesting to have the parcels valued. In the circumstances, it has not been possible to ascertain the validity, valuation and ownership status of the property, plant and equipment balance of Kshs.2,788,059,386 and that the same is fairly stated as at 30 June 2018.

3.0 Receivables from Exchange Transactions

The statement of financial position reflected receivables from exchange transactions of Kshs.65,740,203 as at 30 June 2018 which included Kshs.1,563,316 outstanding imprest which further included Kshs.1,092,354 imprest from previous year. However, no explanation was given as to why this outstanding imprest had not been recovered as at 30 June 2018.

In the circumstances, the recoverability of outstanding imprest amounting to Kshs.1,092,354 reflected in the statement of financial position as at 30 June 2018 could not be ascertained.

4.0 Revenue Reserves

Note 26 to the financial statements reflected a negative revenue reserve of Kshs.136,011,745 as at 30 June 2018 which included a negative Kshs.7,132,546 as adjustment on previous year student balances which was not supported by documentary evidence. Further, the statement of financial position as at 30 June 2018 reflected revenue reserve of Kshs.136,011,745 while the statement of changes in net assets reflected revenue reserve of Kshs.134,914,865 resulting to unreconciled variance of Kshs.1,096,880.

In the circumstances, the accuracy of the negative revenue reserve balance of Kshs.136,011,745 reflected in the statement of financial position as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of South Eastern Kenya 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 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 the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

1.1 Revenue analysis

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflected budgeted revenue of Kshs.1,320,086,973 and actual revenue of Kshs.1,261,933,442 resulting to a revenue over-collection and shortfall of Kshs.2,892,805 and Kshs.61,046,336 respectively as shown below: -

| Items | Budget Kshs | Actual Kshs | Over Kshs | Under Kshs | % |
|--------------------------------|----------------------|----------------------|------------------|-------------------|-------|
| Recurrent | 909,431,973 | 909,431,973 | | | 0.0% |
| Research grants | 36,000,000 | 38,892,805 | 2,892,805 | | 8.0% |
| Tuition and other related fees | 270,266,000 | 269,381,298 | | 884,702 | 0.3% |
| Internally generated | 104,389,000 | 44,227,366 | | 60,161,634 | 57.6% |
| Total | 1,320,086,973 | 1,261,933,442 | 2,892,805 | 61,046,336 | |

The University failed to meet its target revenue by Kshs.61,046,336 which may be an indication of improper planning on its budget making process. There is need for the University to relook at its budget making process with a view to planning a realistic budget to achieve its intended objectives.

1.2 Expenditure analysis

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflected a budgeted expenditure of Kshs.1,320,086,973 and actual expenditure of Kshs.1,315,043,116 resulting to an under-expenditure of Kshs.5,043,857 as follows: -

| Items | Budget (Kshs) | Actual (Kshs) | Under (Kshs) | % |
|--|----------------------|----------------------|--------------------|-----------|
| Administration | 143,604,031 | 143,123,285 | (480,746) | 0% |
| Council | 11,500,000 | 10,564,117 | (935,883) | -8% |
| Repairs and Maintenance | 40,405,000 | 40,206,221 | (198,779) | 0% |
| Marketing, Publicity and Advertisement | 6,500,000 | 5,729,095 | (770,905) | -12% |
| Catering and Accommodation | 26,200,000 | 26,089,188 | (110,812) | 0% |
| Academic services | 37,252,000 | 35,326,082 | (1,925,918) | -5% |
| Employee and part time lecturers | 985,127,000 | 984,506,186 | (620,814) | 0% |
| Depreciation and amortization | 68,802,942 | 68,802,942 | 0 | 0% |
| Audit fees | 696,000 | 696,000 | 0 | 0% |
| Total | 1,320,086,973 | 1,315,043,116 | (5,043,857) | 0% |

The under absorption of Kshs.5,043,857 may have negatively impacted on service delivery by the University as well as an indication of improper budget planning process. Further, the University's budget reflected approved capital budget from Government of Kenya (GOK) of Kshs.65,240,000. However, note 3(b) to the financial statements reflected Kshs.63,930,908 in respect to the actual capital grants received from GOK resulting to an underfunding of Kshs.1,309,092.

The under-funding of Kshs.1,309,092 may have negatively impacted on service delivery by the University.

2.0 Going Concern

The statement of financial performance reflected a deficit of Kshs.53,109,674 for the year under review (2016/2017 – deficit Kshs.45,866,453). Further, the revenue reserves decreased from negative Kshs.82,151,048 as at 30 June 2017 to negative Kshs.136,011,745 as at 30 June 2018. In addition, the amount liabilities of Kshs.491,634,240 as at 30 June 2018 exceeded current assets of Kshs.173,727,860 as at the same date resulting to a negative working capital of Kshs.317,906,380 as at 30 June 2018. As a result, the University has not been in a position to meet its financial obligation as and when they fall due.

Consequently, these financial statements have been prepared on a going concern assumption that the University will get financial support from the National Government and Creditors.

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 Qualified Opinion 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

1.0 Un-authorized Excess Expenditure

The University's statement of comparison of budget and actual amounts reflect a revenue budget of Kshs.1,320,086,973 while the actual revenue amounted to Kshs.1,261,933,442 resulting to a revenue shortfall of Kshs.58,153,531. Further, the actual expenditure of Kshs.1,315,043,116 exceeded the revenue figure of Kshs.1,261,933,442 resulting to excess expenditure of Kshs.53,109,674. There was no evidence availed by the

management for audit review if a supplementary budget was approved as per Section 12 of State Corporation Act which states that no State Corporation shall, without prior approval in writing of the Minister and the Treasury incur any expenditure for which a provision has not been made in the annual estimate.

In the circumstances, the University was 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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, 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.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 those charged with Governance

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.

In preparing the financial statements, management is responsible for assessing the South Eastern Kenya University's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the South Eastern Kenya University 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.

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the South Eastern Kenya University's 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 with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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 South Eastern Kenya University's 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 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 South Eastern Kenya 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 South Eastern Kenya 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 South Eastern Kenya University's 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

31 January 2019