

# **REPORT OF THE AUDITOR-GENERAL ON TAITA TAVETA 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 Taita Taveta University set out on pages 14 to 41, which comprise the statement of financial position as at 30 June 2017, 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 Taita Taveta 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, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, 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. Financial Performance**

The statement of financial position reflects total current liabilities of Kshs.222,014,663 which exceeded total current assets balance of Kshs.84,940,991 resulting to a negative working capital of Kshs.137,073,672. Further, the University realized a loss of Kshs.42,391,287, resulting to accumulated loss of Kshs.285,899,199 as at 30 June 2017.

Consequently, the University may not be in a position to meet its financial obligations as and when they fall due and its continued existence as a going concern depends on its continued support from the Government, bankers and creditors.

#### **2. Academic Costs**

Note 8 to the financial statements for the year ended 30 June 2017 reflects academic costs of Kshs.31,513,168. Included in this amount are part-time teaching expenses of Kshs.18,837,844 out of which an amount of Kshs.10,986,528 was paid to lecturers but whose names, courses and number of units taken, lecture hours and rates charged were not availed for audit verification.

Consequently, the accuracy and propriety of the Kshs.10,986,528 incurred on academic costs could not be confirmed.

### **3. Council Activities Expenditure**

The statement of financial performance for the year ended 30 June 2017 reflects Council activities expenses of Kshs.11,369,747. However, included in the amount are full council sitting allowances amounting to Kshs.820,800 paid vide payment voucher No.16597 of 13 December 2016 for meetings of 13 and 14 December 2016. However, council minutes' book was not availed in support of these meetings and the meeting of 14 December 2016 was not recorded in meetings attendance register.

Consequently, the accuracy and propriety of the Kshs.820,800 expenditure incurred on Council activities cannot be confirmed.

### **4. Intangible Assets**

The statement of financial position as at 30 June 2017 reflects intangible assets balance of Kshs.17,703,971. Records availed for audit review indicated that the University contracted a firm to supply, instal, implement and commission Enterprise Resource Programme (ERP) software system on 18th September 2015 at a contract sum of Kshs.17,580,102.80 with a commencement date of 1st October 2015 and implementation timeline of 14 weeks. However, certificates of completion were not availed for audit verification. Further, during audit inspection in the month of March 2018, the human resource, payroll, catering and health modules had not been operationalized, three (3) years after installation of the system. In addition, although the contractor was expected to deliver one hundred (100) concurrent ERP user licenses within the fourteen (14)-week period, the same had not been issued to the University, more than two years after installation.

Consequently, the accuracy, value for money and propriety of the Kshs.17,580,102.80 incurred on the system on could not be confirmed.

### **5. Cash and Cash Equivalents**

The statement of financial position as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.9,476,382 of which the following observations were made:

## **5.1 Bank Reconciliation Statements**

The bank reconciliation statements as at 30 June 2017 availed in support of the cash and cash equivalents balance of Kshs.9,476,382 contained the following anomalies:

### **5.1.1 Kenya Commercial Bank Ltd Student Fees Account**

The statement of financial position as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.9,476,382, out of which Kshs.845,935 is a balance in Kenya Commercial Bank Ltd Student Fees A/C. The bank reconciliation statement as at 30 June 2017 for this account reflects receipts in bank statements not yet recorded in cash book of Kshs.2,072,475.70 out of which receipts totalling to Kshs.2,022,260.70 had not been recorded in cash book as at the time of audit in the month of March 2018. Further, the reconciliation reflects payments in bank statements not yet recorded in cash book amounting to Kshs.77,814.70 and receipts in cash book not yet recorded in bank statements amounting to Kshs.653,697.40. The management has not explained the failure to record the payments in cash book and banking of the receipts.

### **5.1.2 Kenya Commercial Bank Ltd Catering Account**

The cash and cash equivalents balance of Kshs.9,476,382, includes an amount of Kshs.138,072 held in Kenya Commercial Bank Ltd Catering A/C whose bank reconciliation statement reflects receipts in bank statements not yet recorded in cash book of Kshs.777,701.15 and receipts in cash book not yet recorded in bank statements amounting to Kshs.425,367.50. However, the management has not explained why the receipts have not been recorded in cash book nor cash banked as appropriate.

### **5.1.3 Equity Bank (K) Ltd Student Account**

The statement of financial position as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.9,476,382. Included in this balance is Kshs.128,618 in Equity Bank (K) Ltd Student Account. The bank reconciliation statement as at 30 June 2017 for this bank account reflects unposted debits totalling Kshs.1,915,754. However, bank statements to confirm when debits of Kshs.996,547 were subsequently cleared by the bank were not availed for audit verification.

### **5.1.4 Equity Bank (K) Ltd Call Account**

Note 15 to the financial statements for the year ended 30 June 2017 reflects nil bank balance for Equity Bank (K) Ltd Call Account. However, the bank reconciliation statement as at 30 June 2017, cash book and certificate of bank balance were not availed in support of the nil balance.

### **5.1.5 Kenya Commercial Bank Ltd Salary Account**

The balance of Kshs.9,476,382 includes a balance of Kshs.4,167,839 in Kenya Commercial Bank Ltd Salary Account where bank reconciliation statement as at 30 June 2017 reflects understated opening balance of Kshs.1,747,074.90, receipts in bank statements not yet recorded in cash book of Kshs.2,326,289.35, payments in bank statements not yet recorded in cash book of Kshs.1,394,729 and receipts in cash book not yet recorded in bank statements of Kshs.6,829,185. It is not clear and the management has not explained the failure to record the receipts and payments in cash book and the unbanked receipts.

### **5.2 Petty Cash**

Note 15 to the financial statements for the year ended 30 June 2017 reflects nil cash balance. However, the Board of Survey Certificate on cash was not availed in support of the nil balance.

Consequently, the accuracy, validity, and completeness of the cash and cash equivalents balance of Kshs.9,476,382 as at 30 June 2017 cannot be confirmed.

### **6. Receivables from Exchange Transactions**

The statement of financial position as at 30 June 2017 reflects receivables from exchange transactions balance of Kshs.60,346,889. However, the ageing analysis for this balance which is necessary to determine the recoverability of the debts was not availed for audit verification. Further, as reported in 2015/2016, student fees debtors balance of Kshs.33,099,709 was over six (6) months old. However, evidence of recovery or write-off of this amount in the books of the University has not been availed for audit verification.

Consequently, the accuracy and recoverability of the receivables from exchange transactions balance of Kshs.60,346,889 cannot be confirmed.

### **7. Inter Public University Councils Consultative Forum (IPPUCCF - GoK)**

The statement of financial position as at 30 June 2017 reflects IPPUCCF (GoK) balance of Kshs.35,200,000 of which creditors' confirmation of balance was not availed for audit verification. Consequently, the accuracy of the IPPICCF (GoK) balance of Kshs.35,200,000 cannot be confirmed.

### **8. Bank Loan**

The statement of financial position as at 30 June 2017 reflects KCB current bank loan balance of Kshs.6,319,636 and longterm loan balance of Kshs.2,511,273, all totaling Kshs.8,830,909. However, the supporting bank certificate of loan balance was not

availed for audit verification. Consequently, the accuracy and completeness of total loan balance of Kshs. 8,830,909 cannot be confirmed.

## **9. Trade and Other Payables from Exchange Transactions**

Included in the trade and other payables balance of Kshs.152,259,969 and disclosed in Note 24 to the financial statements for the year ended 30 June 2017 is a balance of kshs.33,866,373 for sundry creditors. However, the sundry creditors balance includes Kshs.727,236 whose confirmation certificates from creditors amounted to Kshs.1,089,600, resulting to a variance of Kshs.362,364 which has neither been explained nor reconciled.

Consequently, it has not been possible to ascertain that trade and other payables balance of Kshs.152,259,969 is fairly stated.

## **10. Bank Overdraft**

The statement of financial position as at 30 June 2017 reflects a bank overdraft balance of Kshs.63,435,058 for Kenya Commercial Bank Ltd Main Account. The bank reconciliation statement reflects overdebited cheque of Kshs.24,259, receipts in bank statement not yet recorded in cash book - unidentified income of Kshs.842,368 and payments in bank statement not yet recorded in cash book of Kshs.1,013,589. The management has not explained the failure to clear these items. Further, approval of the overdraft facility by the National Treasury was not availed for audit verification, contrary to Section 82(7) of the Public Finance Management (National Government Regulations), 2015 which stipulates that no official Government bank account shall be overdrawn beyond the limit authorized by the National Treasury.

Consequently, the accuracy and validity of the bank overdraft balance of Kshs.63,435,058 as at 30 June 2017 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Taita Taveta 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 the matters described

in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no key audit matters to communicate in my report.

## Other Matter

### Budgetary Controls and Performance

#### Expenditure Budget

During the year under review, the University had expenditure budget of Kshs.590,917,368 against actual expenditure of Kshs.554,132,071 or 93.8%, resulting to net under-expenditure of Kshs.36,786,298 or 6.2% as detailed below:

Item	Final Budget (Kshs.)	Actual Expenditure (Kshs)	Over (Kshs.)	Under (Kshs.)	%
Personal Emoluments	352,276,455	361,462,397	9,185,942	-	2.6
Academic Costs	56,182,204	31,513,168	-	24,669,036	43.9
Administrative Costs	9,653,000	6,865,103	-	2,788,897	28.8
Student Welfare Costs	21,525,000	20,037,083	-	1,487,917	6.9
Maintenance Works	3,300,000	2,289,317	-	1,010,683	30.6
Central Services Costs	129,239,169	114,386,611	-	14,852,558	11.5
Council Activities	14,247,600	11,369,747	-	2,877,853	20.2
Finance Costs	4,493,940	6,208,645	1,714,705	-	38.2
<b>Total</b>	<b>590,917,368</b>	<b>554,132,071</b>	<b>10,900,647</b>	<b>47,686,944</b>	<b>6.2</b>

The under expenditure of Kshs.47,686,945 is due to possible over budgeting which may have a negative impact on implementation of planned activities and service delivery to the students. Further, the Council approval of the over-expenditure of Kshs.10,900,647 on personnel costs and academic costs was not availed for audit verification.

### 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 to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management is aware of the intention to liquidate the University or cease its 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's 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 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.
- 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 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 as a going concern or 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 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 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**

**03 July 2018**