

# **REPORT OF THE AUDITOR-GENERAL ON TAITA TAVETA UNIVERSITY FOR THE YEAR ENDED 30 JUNE, 2019**

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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 16 to 45, which comprise the statement of financial position as at 30 June, 2019, 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 effects 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 the Taita Taveta 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. Material Uncertainty to Going Concern**

During the year under review, the University realized a loss of Kshs.19,001,172, resulting to a negative revenue fund of Kshs.357,741,844 as at 30 June, 2019. Further, the statement of financial position reflects total current liabilities of Kshs.267,705,843 which exceeds total current assets balance of Kshs.95,750,915, resulting to a negative working capital of Kshs.171,954,928 (2017/18 – Kshs.155,266,407).

Consequently, the University may not be in a position to meet its financial obligations as and when they fall due. Management has not made any disclosure in the financial statements but continues to prepare the financial statements on a going concern basis.

#### **2. Inaccuracy in Cash and Cash Equivalents**

As disclosed under Note 16 to the financial statements, the statement of financial position reflects cash and cash equivalents balance of Kshs.11,391,785. However, the balance is net of overdrawn cash book balance of Kshs.552,167 in student fees account held at a commercial bank. This is contrary to the requirements of the International Public Sector Accounting Standard No.1 on presentation which prohibits the netting off of liabilities against assets.

Further, the bank reconciliation statement as at 30 June, 2019, reflects receipts in bank statement not yet recorded in cash book amounting to Kshs.761,462, some dating as far back as March, 2018. The amounts relate mainly to fees payments not receipted in cash book and in the relevant students accounts. The Management has not explained why the same have not been recorded in the cash book.

Consequently, the accuracy and completeness of cash and cash equivalents balance of Kshs.11,391,985 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

### **3. Under-Provision of Audit Fees**

As disclosed under Note 13 to the financial statements, the statement of financial performance reflects an expenditure of Kshs.212,000 in respect of audit/legal fees. However, the provision for audit fees is Kshs.548,000 as per Note 24 to the financial statements. Given that the actual current audit fee is Kshs.750,000, the Management has underprovided for audit fees by Kshs.202,000.

Further, records from the Office of the Auditor-General indicate that the University had an outstanding audit fee balance of Kshs.1,644,000 as at 30 June, 2019.

Non-payment of pending bills and liabilities exposes the University to liquidity problems and further leads to material uncertainty on the going concern.

### **4. Unsupported Acting Allowances**

During the year under review, examination of personnel records indicated that five (5) members of staff have been serving in acting capacities for more than six (6) months and were paid acting allowances amounting to Kshs.2,043,609. However, Management did not provide supporting documents such as extension letters, appointment letters to the acting positions and reasons why the positions have not been substantially filled. Management has also not explained why the officers did not revert to their original positions after expiry of the period.

Consequently, the accuracy and validity of the acting allowance could not be confirmed.

### **5. Unsupported Intangible Assets**

As disclosed under Note 21 to the financial statements, the statement of financial position reflects intangible assets balance of Kshs.17,664,208. The balance includes work in progress (WIP) of Kshs.17,580,103. Review of documents availed, for audit review, indicated that Management contracted a firm to supply, install, implement and commission an ERP software on 18 September, 2015 at a contract sum of Kshs.17,580,102 with a commencement date of 1 October, 2015 and implementation

timeline of fourteen (14) weeks. Despite the fact that the full amount of Kshs.17,580,103 was paid four (4) years ago, the contractor has not handed over the system and is no longer on site.

Consequently, it has not been possible to ascertain whether the public has received value for money for the expended amounts of Kshs.17,580,103 paid to the contractor.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Taita Taveta 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. There were no key audit matters to report in the year under review.

## **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, I confirm that, nothing 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**

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my

report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis for Conclusion**

### **1.0 Under Establishment of Employees**

During the year under review, examination of personnel records indicated that the University has two hundred and forty-five (245) employees or against an approved establishment of one thousand seven hundred and twenty-nine (1,729) staff resulting to an under-staffing by one thousand, four hundred and eighty-four (1,484) staff. In particular, the academic function was under-staffed by six hundred and thirty-nine (639) staff, being 73% of the approved establishment, the administrative function was under-staffed by six hundred and eighteen (618) staff or 72% of the approved establishment while the Internal Audit Unit had only two officers in position against the optimal staff establishment of five (5) auditors.

As a result, the University cannot effectively carry out its core function optimally and effectively in ensuring adequate risk assessment, evaluation of internal control systems and governance.

### **2.0 Increased Students Fees Balance**

As disclosed under Note 17 to the financial statements, the statement of financial position reflects receivables from exchange transactions balance of Kshs.76,205,037. Included in this amount is student fees balance of Kshs.36,950,010 up from Kshs.31,243,250 recorded during the previous year, an increase of Kshs.5,706,760 or 18%. Management did not explain measures in place to manage the debt.

Consequently, I am unable to confirm effectiveness on debt controls including governance and the recovery strategy that the management has taken.

### **3.0 Long Outstanding Creditors**

As previously reported, as disclosed under Note 24 to the financial statements, the statement of financial position reflects trade and other payables balance of Kshs.218,595,409 out of which an amount of Kshs109,634,286.64 has been long outstanding for more than two (2) years and some dating as far back as 2015 as shown below:

<b>Creditors</b>	<b>Outstanding Balances Kshs.</b>
Sundry creditors	37,096,326.64
Jomo Kenyatta University of Agriculture and Technology	4,581,823
Technical University of Mombasa	3,537,503

Hospital bills	32,209,317
Others	32,209,317
	<b>109,634,286.64</b>

Consequently, I am unable to confirm effectiveness of the internal control systems and the discharge strategy the on payables controls including governance.

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 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 as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the University or to 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.

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 resources are applied in an effective way.

The University Council is responsible for overseeing the University's financial reporting process, reviewing the effectiveness of how the University 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 overall 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 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 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 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 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**05 February, 2021**