

# **REPORT OF THE AUDITOR-GENERAL ON UNIVERSITY OF EMBU FOR THE YEAR ENDED 30 JUNE 2018**

---

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Opinion**

I have audited the accompanying financial statements of University of Embu set out on pages 33 to 67, 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 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, the financial statements present fairly, in all material respects, the financial position of the University of Embu 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, No. 42 of 2012 of the Laws of Kenya.

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of University of Embu 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. There were no Key Audit Matters to report in the year under review.

### **Other Matter**

#### **1.0 Budget**

#### **1.1 Budgetary Control and Performance**

During the year under review, the University had an approved budget of Kshs.1,054,588,774 comprising of Kshs.863,299,333 and Kshs.191,289,441 for recurrent and development respectively.

Out of Kshs.863,299,333 and Kshs.191,289,441 expenditure budget of recurrent and development respectively, Kshs.874,275,720 (101%) for recurrent and Kshs.177,349,124 (93%) for development was spent as follows;

Revenue	Approved Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	Under (Kshs)	Over (Kshs)
Government grants	512,382,207	512,346,055	(36,152)	(36,152)	-
Government devt grants	59,325,554	59,325,554	-	-	-
Researcher's grants	38,276,715	38,276,715	-	-	-
Accommodation fee	8,784,056	8,784,056	-	-	-
Surplus b/f	100,433,596	100,433,596	-	-	-
Tuition fee	251,247,737	251,247,737	-	-	-
Catering	22,577,143	22,577,143	-	-	-
Farm	7,618,871	7,799,028	180,157	-	180,157
Rent	6,682,800	6,682,800	-	-	-
Other income	45,527,927	45,527,927	-	-	-
Graduation fee	973,500	973,500	-	-	-
Annual conference	480,668	480,668	-	-	-
<b>Total income</b>	<b>1,054,310,774</b>	<b>1,054,454,779</b>	<b>144,005</b>	<b>(36,152)</b>	<b>180,157</b>
<b>Expenditure</b>					
<b>Recurrent</b>					
Compensation of employees	545,419,456	545,034,617	(384,839)	(384,839)	-
Operational & admn cost	251,262,325	259,484,652	8,222,327	-	8,222,327
Property, Plant & Equipment	51,622,252	53,118,782	1,496,530	-	1,496,530
Minor works	14,995,300	16,637,669	1,642,369	-	1,642,369
<b>Sub Total</b>	<b>863,299,333</b>	<b>874,275,720</b>	<b>10,976,387</b>	<b>(384,839)</b>	<b>11,361,226</b>
Development project	191,289,441	177,349,124	(13,940,317)	(13,940,317)	-
<b>Total expenditure</b>	<b>1,054,588,774</b>	<b>1,051,624,844</b>	<b>(2,963,930)</b>	<b>(14,325,156)</b>	<b>11,361,226</b>

From above analysis, the recurrent budget was overspent by Kshs.10,976,387 while development budget was under spent by Kshs.13,940,317.

However, no authority in form of a supplementary budget was made available for the Kshs.10,976,387 recurrent over expenditure as at 30 June 2018.

Further, the under expenditure of Kshs.13,940,317 in the development vote denied the community equivalent promised and expected services during the year under review.

## 1.2 Variation between Balances in the Combined Statement of Comparison of Budget and actual Amounts and Statement of Financial Performance

The statement of financial performance and the combined statement of comparison of budget and actual amounts reflected a revenue of Kshs.854,809,384 and Kshs.894,695,629 respectively resulting into an unreconciled variance of Kshs.39,886,245. The two statements further reflected an expenditure of Kshs.804,519,270 and Kshs.821,156,939 respectively resulting to an unreconciled variance of Kshs.16,637,669 as follows;

	<b>Combined Statement of Comparison of Budget &amp; Actuals (Kshs)</b>	<b>Statement of Financial Performance (Kshs)</b>	<b>Variance (Kshs)</b>
<b>Revenue</b>			
Total Income	1,054,454,779	862,967,510	
Government Dev't Grants	(59,325,554)	-	
Surplus B/F	(100,433,596)	-	
Amortization of Grants	-	(8,158,126)	
<b>Total</b>	<b>894,695,629</b>	<b>854,809,384</b>	<b>39,886,245</b>
<b>Expenditure</b>			
Total Expenses	1,051,624,845	849,541,346	
Property, Plant & Equipment	(53,118,782)	-	
Development Projects	(177,349,124)	-	
Depreciation & Amortization Expenses	-	(45,022,076)	
<b>Total</b>	<b>821,156,939</b>	<b>804,519,270</b>	<b>16,637,669</b>

In the circumstances, the accuracy of the balances reflected in both the combined statement of comparison of budget and actual amounts and the statement of financial performance for the year under review could not be ascertained.

## 1.3 Budget Revision

During the year under review, the University had a revised approved budget of Kshs.1,054,588,774 comprising of Kshs.863,299,333 and Kshs.191,289,441 for recurrent and development respectively. However, the initial recurrent budget of Kshs.739,276,308 was revised upward by Kshs.123,745,025 to Kshs.863,021,333 while development was reduced by Kshs.157,370,470 from Kshs.348,659,911 to Kshs.191,289,441 resulting to total revised budget of Kshs.33,625,445. However, the budget approval by the University was done retrospectively on 29 June 2018 when the expenditure had already been incurred.

Further, seven (7) expenditure items were each reviewed by 10% or more upwards by Kshs.74,141,608 from Kshs.601,826,308 to Kshs.675,967,916 while five (5) items

were each reviewed by more than 10% downwards by Kshs.34,604,589 from Kshs.133,200,000 to Kshs.98,595,411 as follows;

<b>Audit Components</b>	<b>Original Budget (Kshs.)</b>	<b>Re-allocations (Kshs.)</b>	<b>Variance</b>	<b>Revised Budget (Kshs.)</b>
<b>Recurrent Expenditure</b>			%	
<b>Revised 10% and Above Upward</b>				
Personnel Emoluments & other benefits	494,579,308	50,840,148	10	545,419,456
Teaching, Research & Learning Materials	27,500,000	7,443,949	27	34,943,949
General Supplies	14,877,000	3,829,211	26	18,706,211
Foodstuff & Other Kitchen Supplies	29,300,000	6,433,836	22	35,733,836
Charges and Commission	320,000	119,446	37	439,446
Specialized services	29,250,000	3,984,018	14	33,234,018
Farm commercial Activities	6,000,000	1,491,000	25	7,491,000
	<b>601,826,308</b>	<b>74,141,608</b>		<b>675,967,916</b>
<b>Revised 10% and Above downward</b>				
Advertising, marketing and publicity	10,400,000	(1,296,080)	(12)	9,103,920
Contracted and professional services	12,100,000	(2,436,425)	(20)	9,663,575
Maintenance works & services	19,300,000	(6,089,636)	(32)	13,210,364
Equipment	72,400,000	(20,777,748)	(29)	51,622,252
Minor Works	19,000,000	(4,004,700)	(21)	14,995,300
	<b>133,200,000</b>	<b>(34,604,589)</b>		<b>98,595,411</b>

However, the above revision of budget was not forwarded to the line Ministry and the National Treasury for consideration contrary to Section 4.1 of Treasury Circular No.14/2016 dated 13 July 2016 which states that any budget revision exceeding 10% of the approved budget for revenue and expenditure must be submitted for review and approval by line Ministry and the National Treasury.

In the circumstances, the University's purported approval of the revised budget may have been null and void.

## 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**

### **1.0 Irregular Expenditure**

#### **1.1 Teaching Practice**

Note 16 to the financial statements reflects Kshs.2,066,073 in respect to teaching practice which include Kshs.1,907,478 paid to lecturers who participated in student's teaching practice placement and assessments comprising of Kshs.1,321,850; Kshs.582,128 and Kshs.3,500 for per diem allowances, mileage facilitation and airtime allowance respectively as at 30 June 2018.

However, the allowances were based on the May 2013 University of Embu Terms of Service for Academic Staff which was contrary to Article 230 (4)(a) of the Constitution of Kenya 2010 which empowers the Salaries and Remuneration Commission (SRC) to set and regularly review the remuneration and benefits of all state officers.

In the circumstance, the University was in breach of the law.

#### **1.2 Payment of Per diem to University Staff**

Note 16 to the financial statements reflects Kshs.11,503,253 in respect of travel and subsistence allowance which include Kshs.771,174 paid to staff as half (1/2) per diems while working outside the workstation as per the May 2013 University of Embu Terms of Service for Academic Staff.

However, the rates in the Terms of Service of the University were contrary to Article 230 (4)(a) of the Constitution of Kenya 2010 which empowers the Salaries and Remuneration Commission (SRC) to set and regularly review the remuneration and benefits of all state officers.

In the circumstance, 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 INTERNAL CONTROLS EFFECTIVENESS, 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, 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 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, risk management and governance.

In preparing the financial statements, management is responsible for assessing the University's ability to continue sustaining services, disclosing as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the 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 resources are applied in an effective way.

Those charged with governance are 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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibility for the Audit**

The audit objectives are to obtain reasonable assurance about whether the University's 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 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 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 University's ability to continue as a going concern or 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 to continue as a going concern or 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 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**

**17 January 2019**