

REPORT OF THE AUDITOR-GENERAL ON UNIVERSITY OF KABIANGA FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of University of Kabianga set out on pages 1 to 28, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual performance 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 University of Kabianga 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.

Further, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Other Matter section of my report, 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 Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the University of Kabianga 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 Matter

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For the matter below, a description of how the audit addressed the matter is provided in that context. I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to this matter. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures

performed to address the matter below, provide the basis for my audit opinion on the accompanying financial statements.

| Key Audit Matter | How the Audit Addressed the Key Audit Matter |
|---|---|
| Student Fee Debtors – Kshs. 99,292,961 | |
| <p>Clause 5 of the student fee policy dated October 2013 states that a student shall be required to pay tuition fees and all other related charges to the program at the time of registration. No registration is complete until the fees have been paid in full. Further failure to adhere to the plan will result in automatic disqualification.</p> <p>It is recognized that disqualification of a student may be influenced factors such as government policy, which may be beyond the control of the University.</p> <p>As disclosed in note 13 to these financial statements, judgement is applied in determining the appropriate parameters and assumptions used to calculate provision for doubtful debts. For example, the assumptions of students that will default, the expected future cash flows from the students and the timing of the cash flows.</p> <p>Due to the significance of the student fees debtors balances of Kshs. 99,292,961, and the significant judgement involved in calculating impairment, particularly regarding the estimation of the expected future cash collections, this was considered a key audit matter.</p> | <ul style="list-style-type: none"> • The audit procedures included the testing and evaluation of controls over the process, recording and ageing of outstanding student fees debtors, and monitoring of the debts by the Student Finance Department. • The adequacy of the provision for doubtful debts, including the appropriateness of the methodology used and assumptions made to calculate the provision was evaluated. • Testing was performed, on a sample basis, on whether the University’s assumptions on the expected future cash flows and timing of the cash flows were supported. • The audit also assessed whether the financial statement disclosures made, appropriately reflect the University’s credit risk and impairment provision on the student fees debtors. |

Other Matter

1.0 Property, Plant and Equipment - Pineapple Plant Project

The property, plant and equipment balance of Kshs. 1,820,775,239 includes work-in-progress of Kshs.345,754,663 as at 30 June 2017. As previously reported, the amount includes a sum of Kshs.1,075,100 paid to D.K Engineering Ltd for the supply and installation of pineapple juice extraction equipment. Although the firm supplied the equipment in June 2014, it had not been installed as at the time of the audit exercise in April 2018.

Further, the work-in-progress amount includes an instalment of Kshs.3,244,424 out of a contract sum of Kshs.3,959,520 paid to a firm, Gravity Contractor Ltd for the construction of a building into which the equipment would be installed. In addition, the work-in-progress includes Kshs.1,435,316 paid to a firm, ACAI Holding Limited for the construction of changing rooms which are part of the project. At the time of the audit exercise, the construction work by both Gravity Contractor Ltd and ACAI Holding Limited was complete but the equipment had not been installed. The management cited disputes with the contractors and lack of power supply as the reason for the delay in implementation of the project.

Consequently, and as previously reported, besides not realizing value for the money paid to the contractors, the cost of the project is likely to escalate.

2.0 Property, Plant and Equipment - Computers, Printers and Copiers

The property, plant and equipment balance of Kshs. 1,820,775,239 as analyzed under note 20 to the financial statements includes additions to computers, printers and copiers of Kshs.10,241,166. A review of the fixed asset register revealed that essential information regarding computer hardware additions totaling to Kshs.3,449,103 was not included in the register. The missing information included purchase costs, date of purchase, expected lifespan, rate and method for providing for depreciation and serial numbers of the assets. In the absence of this information, it was not possible to confirm the existence of the assets and the accuracy of the balance of Kshs.3,449,103 in respect of the additions to computers, printers and copiers.

3.0 Grounded Motor Vehicles

The property, plant and equipment balance of Kshs. 1,820,775,239 includes motor vehicles with net book value of Kshs.26,969,763 as at 30 June 2017. The amount of Kshs. 26,969,763 includes Kshs.3,204,080 which, according to a report dated 30 September 2016, is the valuation of 3 out of 4 Nos. vehicles as shown below:

| Vehicle Registration No. | Original Value (Kshs) | Re-valuation Amount (Kshs) |
|---------------------------------|------------------------------|-----------------------------------|
| KBL 449G | 3,304,320 | 1,544,080 |
| KXL 874 | not known | 260,000 |
| KBB 516S | 3,587,000 | 1,400,000 |
| KAH 374 | Not known | Not revalued |
| Total value | 6,891,320 | 3,204,080 |

Physical verification of the vehicles on 5 April 2018 revealed that they were grounded and their condition was deteriorating. In the circumstance, the grounded vehicles will continue losing their economic value if they are not boarded for disposal.

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 services, disclosing, as applicable, matters related to sustainability of services.

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 of Kenya. 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 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 services. If I conclude that a material

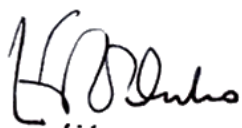
uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the University to cease to 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 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.

From the matters communicated with management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

14 August 2018