

REPORT OF THE AUDITOR-GENERAL ON COMMISSION FOR UNIVERSITY EDUCATION FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Commission for University Education set out on pages 1 to 31, which comprise the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, statement of cash flows, 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 the Commission for University Education as at 30 June, 2021, 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The financial statements presented for audit had the following inaccuracies:

- i. The statement of financial performance reflects donor funds-NICHE comparative amount of Kshs.10,067,686 that has no explanatory Note;
- ii. Note 5 to the financial statements on page 15 reflects a surplus of Kshs.10,979,479 as at 30 June, 2020 instead of a surplus of Kshs.10,368,968 reported on the statement of financial performance resulting to an unexplained variance of Kshs.610,511;
- iii. The statement of comparison of budget and actual amounts reflects a nil adjustment for total income and expenditure. However, a recast of the adjustments results to an amount of Kshs.6,041,444 and negative Kshs.44,935,483 respectively;
- iv. The statement of comparison of budget and actual amounts reflects original and final budget in respect of rendering of services amounting to Kshs.198,000,000 and Kshs.122,400,000 respectively. However, the adjustment column indicates a nil adjustment to the budget and the difference of Kshs.75,600,000 was not explained or reconciled;
- v. The statement of comparison of budget and actual amounts reflects original budget deficit of Kshs.47. However, a recast of the amounts results to a nil balance;
- vi. The statement of financial position reflects cash and cash equivalents balance of Kshs.431,708,635. However, Note 18 to the financial statements reflects a balance of Kshs.431,873,335 for the same items resulting to an unexplained and an unreconciled variance of Kshs.164,700.
- vii. Note 4 to the financial statements on page 10 indicates the financial year as 2019/2020 instead of 2020/2021 under the budget information.

In the circumstances, the accuracy and completeness of the above balances included in financial statements for the year ended 30 June, 2021 could not be confirmed.

2. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment of Kshs.440,931,781. However, the property, plant and equipment balance includes land and buildings that have been carried at revalued amounts of Kshs.314,000,000 and

Kshs.168,550,821 respectively with the last revaluation having been done in the year 2010. However, the Commission's accounting policy does not support revaluation model of accounting for assets. The property, plant and equipment balance also includes an amount of Kshs.3,958,002 in respect of motor vehicles whose individual values differed materially from one year to another but was not supported by any revaluation hence a contravention of IPSAS 17 paragraph 44 on use of revaluation model.

Further, Note 21 to the financial statements reflects work in progress balance of Kshs.7,447,200 relating to undefined project for which no supporting documents were provided for audit review.

In the circumstances, the accuracy of the property, plant and equipment balance of Kshs.440,931,781 as at 30 June, 2021 could not be confirmed.

3. Trade and Other Payables from Exchange Transactions

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.60,159,839 as detailed in Note 27 to the financial statements. However, the balance has not been supported by a listing of the payables indicating names, amounts due to each supplier and verifiable documentation to support the payables balance. In addition, as disclosed in Note 27 to the financial statements, the balance includes an amount of Kshs.11,045,195 in respect of research funds which has been outstanding for over three years.

In the circumstances, the completeness of the trade and other payables from exchange transactions balance of Kshs.60,159,839 as at 30 June, 2021 could not be confirmed.

4. Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.1,057,929,772 as detailed in Note 19 to the financial statements. Included in this balance is an amount of Kshs.952,809,329 which has been outstanding for over two years. The debts have also increased by an amount of Kshs.52,135,962 in the year under review. However, there was no evidence to indicate that proper mechanism had been put in place to recover these long overdue debts.

Further, no provision for doubtful debts has been made in the financial statements.

In the circumstances, the accuracy and recoverability of receivables from exchange transactions of Kshs.1,057,929,772 as at 30 June, 2021 could not be confirmed.

5. Unsupported General Expenses

The statement of financial performance for the year ended 30 June, 2021 reflects general expenses amounting to Kshs.53,645,658 as detailed in Note 17 to the financial statements. However, expenses totalling to Kshs.46,284,531 were not supported by a schedule or ledger.

In the circumstances, the accuracy and completeness of general expenses totalling to Kshs.46,284,531 for the year ended 30 June, 2021 could not be confirmed.

6. Repairs and Maintenance

The statement of financial performance and Note 15 to the financial statements reflects repairs and maintenance expenditure of Kshs.3,718,294. However, the supporting schedule provided for audit review did not have identity of the service provider and it was not possible to review the selection and award of the supplier. Further, included in this expenditure is amount of Kshs.251,195 for purchase of sanitizers which was wrongly charged to repairs and maintenance expenses.

In addition, an amount of Kshs.1,356,942 and was spent on construction of perimeter wall for Loresho House while another amount of Kshs.468,896 was spent for renovation of the same house. The ownership and proof of use of the house for the benefit of the Commission could not be ascertained as the land ownership documents were not provided for audit review.

In the circumstances, the accuracy and regularity of repairs and maintenance expenditure of Kshs.3,718,294 for the year ended 30 June, 2021 could not be confirmed.

7. Cash and Cash Equivalents

The statement of financial position as at 30 June, 2021 reflects cash and cash equivalents balance of Kshs.431,708,635 as detailed in Note 18 to the financial statements. However, the bank reconciliation statements reflect unrepresented cheques totalling Kshs.15,914,679 that includes payments to banks of Kshs.6,403,044 whose particulars and dates cleared by the banks were not disclosed. In addition, unbanked receipts reflected on the bank reconciliation statements amounting to Kshs.320,000 did not have details of when they were banked and could not be traced to the bank statement.

Further, Note 18 to the financial statements reflects an opening fixed deposit account balance of Kshs.11,408,093 and a nil closing balance. Although, the Management indicated that the account was closed with the approval of The National Treasury, the approval and evidence of transfer of the account balance was not provided for audit review.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.431,708,635 as at 30 June, 2021 could not be confirmed.

8. Mortgage and Car Loan Deposit

The statement of financial position as at 30 June, 2021 reflects mortgage and car loan deposit of Kshs.84,515,037. However, no supporting documents have been provided to support creation and operation of the mortgage and car loan scheme by the Commission. Further, details of loans issued by the Scheme, interest earned if any were not provided

for audit review. The Management did not also provide any approved regulations governing the operation of the Scheme to justify the transfer of the amount to deposit account.

In the circumstances, the accuracy and regularity of the mortgage and car loan deposit of Kshs.84,515,037 as at 30 June, 2021 could not be confirmed.

9. Remuneration of Commissioners

The statement of financial performance and Note 13 to the financial statements reflects remuneration of Commissioners amounting to Kshs.5,544,258 for the year ended 30 June, 2021. Included in the expenditure are sitting allowances totalling to Kshs.3,060,000 out of which payments amounting to Kshs.2,020,000 were not supported by minutes detailing attendance and deliberations of the meetings.

In the circumstances, the regularity of the remuneration of the Commissioners expenditure of Kshs.2,020,000 for the year ended 30 June, 2021 could not be confirmed.

10. Rendering of Services Income

The statement of the financial performance for the year ended 30 June, 2021 and as detailed in Note 7 to the financial statements reflects rendering of services income of Kshs.161,779,175 which includes quality assurance charge of Kshs.124,889,000. However, the revenue increased from an amount of Kshs.45,455,000 in the financial year 2019/2020 to Kshs.124,889,000 in the current year or an increase of 274% which has not been explained and the basis of charging the various institutions was not provided for audit review.

In addition, the program accreditation revenue dropped from Kshs.39,601,665 to Kshs.26,561,250 for which no explanation and verifiable documents have been provided while invoices amounting to Kshs.62,911,240 for the year 2018/2019 have been included as revenue for the year.

Further, the basis of charging equation of qualification revenue amounting to Kshs.10,328,926 reporting in the financial statements was not provided for audit review.

In the circumstances, the accuracy and completeness of rendering of services income of Kshs.161,779,176 for the year ended 30 June, 2021 could not be confirmed.

11. Contracted Services

The statement of financial performance for the year ended 30 June, 2021 reflects contracted services expenditure of Kshs.26,622,593 as detailed in Note 16 to the financial statements. This expenditure in turn includes payments to resource persons amounting to Kshs.13,894,076. However, the resource persons payments which includes accommodation, honoraria and sitting allowances amounting to Kshs.1,560,000, Kshs.9,627,300 and Kshs.2,045,240 respectively have not been supported by any legal or statutory documentation on basis of the rates used.

In the circumstances, the accuracy and regularity of the contracted services expenditure of Kshs.13,894,076 could not be confirmed.

12. Professional Fees

The statement of financial performance and Note 16 to the financial statements reflects contracted services expenditure of Kshs.26,622,593 which includes conveyance fees for land amounting to Kshs.270,000. Although the Management indicated that the fees was in respect of transfer of Commission's land from the predecessor Commission, no documentary evidence was provided for audit verification.

Further, justification of an expenditure of Kshs.2,720,000 in respect of a court case where the Commission does not appear as a respondent was not provided for audit and no contingent liability has been disclosed in the financial statements for matters before courts.

In the circumstances, the accuracy and regularity of professional fees of Kshs 5,594,900 for the year ended 30 June, 2021 could not be confirmed.

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects revenue budget of Kshs.291,491,931 against actual revenue of Kshs.301,052,351 resulting in an over collection of Kshs.18,560,420 or 6%. Similarly, the statement reflects an actual expenditure of Kshs.298,173,332 against a budget of Kshs.316,115,004 resulting to an under-expenditure of Kshs.17,941,672 or 43%. Management has not provided any explanation for the under expenditure which affected the planned activities and may have impacted negatively on service delivery to the public.

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. Management of Imprests

The Commission issued imprests totalling Kshs.552,152 to staff before the previous ones were surrendered. This was contrary to Regulation 93(8) of the Public Finance Management (National Government) Regulations, 2015 which states that in order to effectively and efficiently manage and control the issue of temporary imprests, an Accounting Officer or AIE holder shall ensure that no second imprest is issued to any officer before the first imprest is surrendered or recovered in full from his or her salary.

In the circumstances, the Commission was in breach of the law.

2. Ethnic Diversity

Available records at human resource department indicated that the dominant ethnic community employed by the Commission constituted 35% (consisting of 29 employees in permanent and pensionable terms). The Commission had contravened Section 7(2) of the National Cohesion and Integration Commission Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

3. Procurement of Integrated Management Information System

The Commission engaged a company for the provision of Integrated Management Information System at a contractual sum of Kshs.45,760,840 inclusive of VAT with a commencement date of 19 October, 2018. The contract document provides the duration of various planned activities and one-year support period. A total of Kshs.15,868,800 had been paid to the contractor as at the time of audit. However, there was no expected date of completion in the contract and the committee for the implementation formed did not prepare reports as prescribed by the Regulation 137 of the Public Procurement and Assets Disposal Regulations, 2020. The contract implementation documents were not complete, up to date and key milestones were not achieved as required by the contract agreement. In addition the contractor had not provided the latest online Microsoft downloaded training materials and learning plans as provided for in the contract agreement.

Further, the revised project plan which was necessitated by the extension of work through circular reference CUE/10/7/VOL.13/8 was not provided for audit review thus raising doubt as to whether they were actually prepared after the extension of the contract period.

In the circumstances, the regularity of the expenditure of Kshs.15,868,800 for the year ended 30 June, 2021 could not be confirmed.

4. Related Party Transaction - Motor Vehicle

Review of the Commission's assets indicated that motor vehicle registration number KCE 614D Chevrolet trailblazer registered under the Commission for University Education had not been released to the Commission by the State Department for University Education. This is despite communications vide letters dated 15 February, 2021 and 28 July, 2021 to the State Department to release the vehicle.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements, 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, 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 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 the Board of Directors

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 Commission'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 Management is aware of the intention to terminate the Commission or cease 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 Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Commission 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 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 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 applicable 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 Commission'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 Commission to cease 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 Commission 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 July, 2022