

REPORT OF THE AUDITOR-GENERAL ON JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY 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 Jomo Kenyatta University of Agriculture and Technology set out on pages 1 to 40, which comprise of 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 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 Jomo Kenyatta University of Agriculture and Technology 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 and the Public Finance Management Act, 2012 and the University Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in Personal Emoluments Expenditure

The statement of financial performance and Note 5(i) to the financial statements reflects personal emoluments expenditure of Kshs.5,259,174,673. This amount includes staff salaries amount of Kshs.2,732,437,175 and casual workers wages amount of Kshs.2,879,023. However, the personnel emoluments amount varies with the payroll amount of Kshs.4,772,246,230 resulting to an unreconciled variance of Kshs.486,928,443.

In the circumstances, the accuracy and completeness of staff costs of Kshs.5,259,174,673 could not be confirmed.

2. Inaccuracies in Inventories Balance

The statement of financial position and Note 9 to the financial statements reflects inventories balance of Kshs.22,261,093. However, review of the records revealed unexplained variances amounting to Kshs.1,181,652 between the financial statement and inventory reports in respect of various items of inventory.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.22,261,093 could not be confirmed.

3. Inaccuracies in Trade and Other Receivables

The statement of financial position and Note 10 to the financial statements reflects a balance of Kshs.2,872,875,194 in respect of trade and other receivables. Included in the balance is an amount of Kshs.14,287,012 in respect of transport, medical and other costs for services offered by the University to Jomo Kenyatta University of Agriculture and Technology (JKUAT) Enterprises Limited which is a wholly owned subsidiary. However, the subsidiary's statement of financial position reflects trade and other payables of Ksh.2,568,182 owed to the University resulting to an unreconciled variance of Kshs.11,718,830.

Further, the receivables balance includes an amount of Kshs.201,140,451 due from various entities that have been outstanding for over one (1) which included amounts of Kshs.2,758,109, Kshs.1,172,928, Kshs.2,525,600 and Kshs.3,565,696 due for over three (3) years from a Housing Co-operative, a local bank, car loans defaulters, smart harvest project, and an institute respectively.

In addition, the university made a 10% provision of bad debts amount of Kshs.319,208,355 which was calculated on the gross trade and other receivables balance of Kshs.3,192,083,549. However, no report was provided for audit on the University's review and assessment of the trade and other receivables.

In the circumstances, the accuracy, completeness and recoverability of debtors amounting to Kshs.2,872,875,194 could not be confirmed.

4. Understatement of Trade and Other Payables

The statement of financial position and Note 12 to the financial statements reflects a balance of Kshs.6,417,860,273 in respect of trade and other payables. Review of the statement of financial position of Jomo Kenyatta University of Agriculture and Technology Industrial Park Limited, a wholly owned subsidiary of the University, reflects a trade and other receivables balance of Kshs.125,100,000 owed by the University. The debt arose from funds transferred to the University by the Company in 2019. However, the transfers were not disclosed in the University's financial statements under trade and other payables. Management explanation that the cash injections were University's compensation for contribution in undertaking joint projects was not supported by any documents.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.6,417,860,273 could not be confirmed.

5. Failure to submit Consolidated Financial Statements

The University wholly controls investments in Jomo Kenyatta University of Agriculture and Technology Industrial Park Ltd. However, the financial statements submitted for audit were not consolidated with statements for the Company as required by IPSAS 35.

In the circumstances, the financial statements did not comply with International Public Sector Accounting Standards (IPSAS 35).

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Jomo Kenyatta University of Agriculture and Technology Management 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.

Emphasis of Matter

Uncertainty Relating to Sustainability of Services

The statement of financial performance reflects a deficit of Kshs.1,393,565,393 resulting in an accumulated deficit of Kshs.933,229,573. In addition, the statement of financial position reflects total current assets balance of Kshs.3,410,770,913 and total current liabilities balance of Kshs.7,025,996,008 resulting in a negative working capital of Kshs.3,615,225,095.

In the circumstances, the ability of the University to continue to sustain its services is dependent on continued Government support and suppliers.

My opinion is not qualified based on the above matter.

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. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual revenue on comparable basis of Kshs.7,235,783,211 and Kshs.5,907,267,865 respectively resulting in under-performance of Kshs.1,328,515,346 or 18%. In addition, the actual expenditure during the year under review was Kshs.7,300,833,258 against an approved budget of Kshs.7,232,103,969 resulting to an over-expenditure of Kshs.68,719,289 or 1% of the budget. Management attributed the shortfall in revenue collection to challenging business environment brought about by restructuring of the educational sector which resulted to the drastic reduction of the number of candidates who qualified to join the self-sponsored programmes, increased staff costs from implementation of the Collective Bargaining Agreements (CBA), non-implementation of the differentiated unit cost funding model and the Covid-19 pandemic.

In the circumstances, the underfunding affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements. However, Management had not resolved the issues nor disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board templates.

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. Irregular Placement of Officers in Acting Capacity

Review of payroll and human resources records revealed that twelve (12) officers were holding various positions in acting capacity and as previously reported, these officers continued to be paid acting allowances for more than six (6) months contrary to the provisions of Section 34(3) of the Public Service Commission Act, 2017 that states that an officer may be appointed in an acting capacity for a period of at least thirty (30) days but not exceeding a period of six (6) months. Management explained that this was due to financial constraints and freeze on recruitment by the Government.

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

2. Irregular Placement of Officers in Higher Grades

Review of the human resource master roll, the payroll data and the University's staff establishment revealed that thirty (30) members of staff have been engaged at higher grades than the approved staff establishment resulting to overpayment of salaries by Kshs.4,157,538 contrary to Section 1.5.1 of the Human Resources Policies and Procedures which require the Head of Department or Section Head to refer to the approved staff establishment during the determination of vacancies and posting.

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

3. Overpayment of Basic Salaries

Review of the basic pay rates outlined in the 2013-2017 Collective Bargaining Agreement of Kenya Universities Staff Union (KUSU), Universities Academic Staff Union (UASU), and Kenya Union of Domestic Hotels, Educational Institutions, Hospitals and Allied workers (KUDHEIHA) and the basic amounts paid by the University revealed a variance of Kshs.8,043,360 resulting from payment to members of staff above the salary ranges prescribed for their grades during the year under review.

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

4. Unremitted Statutory Deductions

The statement of financial position reflects trade and other payables balance of Kshs.6,417,860,273. The balance includes an amount of Kshs.5,454,532,982 in respect of sundry creditors. The creditors include unremitted statutory deductions in respect of pension deductions and contributions by employer, Pay As You Earn (PAYE) and other third-party deductions from employees of Kshs.1,937,426,915, Kshs.2,214,877,493 and Kshs.191,095,236 respectively totalling Kshs.4,343,399,643. Further, the sundry creditors balance includes balances due to general suppliers and other contractors totaling Kshs.1,111,133,339 out of which balance totalling to Kshs.196,310,940 have been outstanding for more than one (1) year. Management did not provide an explanation for non-remittance of statutory deductions and non-settlement of long outstanding creditors.

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

5. Stalled Proposed Erection of Perimeter Wall

The statement of financial position and Note 8 to the financial statements reflects property, plant and equipment balance of Kshs.24,366,825,565. Included in the balance is an amount of Kshs.584,894,999 in respect of work in progress. As previously reported, the work in progress includes construction of the University boundary wall valued at Kshs.50,698,799. The contract for the proposed boundary wall was entered into in 2012 at a contract sum of Kshs.68,836,283. However, review of the status and physical verification of the project carried out in April, 2022 revealed that works stalled in 2015 following a court injunction by three (3) claimants. Since then, sections of the fence have been vandalized whereas others stalled at foundation level even though a total of Kshs.50,698,799 or 73.6% of the contract sum had been paid. The status of the legal suit was provided for audit review.

In the circumstances, the University may not have obtained value for money on funds spent on the project.

6. Stalled Water Bottling Plant

As previously reported, the University spent Kshs.18,299,677 or 50.2% of the contract sum on certified works for the proposed water bottling project. However, physical verification of the project in April, 2022 revealed that the project is not in use and the plant has never been functional. Management did not provide satisfactory explanation on the lack of operationalization of this project and have since handed it over to its subsidiary JKUAT Enterprises Limited for completion and operationalization.

In the circumstances, the regularity of the expenditure of Kshs.18,299,677 incurred on the water bottling plant could not be confirmed.

7. Delayed Completion of Extension of Administration Block

Included in the property, plant and equipment balance is work in progress balance of Kshs.324,412,465 in respect of an extension of administration block. As reported previously, the University entered into a contract for the construction of the new administration block for a contract period of seventy-two (72) weeks commencing on 21 January, 2013 at a contract sum of Kshs.285,919,713. Review of the project documents reveals that the contract was extended to 6 December, 2014 and the contract sum was varied to Kshs.348,366,919 representing an increase of 22% of the original contract sum. Physical verification of the project in April 2022, revealed that the contractor was on site and the building was approximately 90% complete. However, Management did not provide explanations on why the project was still incomplete even after several contract extension periods including the last one of 28 March 2020. In addition, no evidence was provided for the approval of the variations that exceeded the 15% allowable level of the then applicable Public Procurement and Disposal Act, 2005. Further, no explanation was provided by Management on how and when it intends to complete the building and put it into the intended use.

In the circumstances, Management was in breach of the law and the university has not realised value for money on the incomplete building.

8. Delayed Implementation of the Enterprise Resource Planning Software

The University awarded tender No. JKUAT/22/2017-2018 to a software firm for the supply, configuration, testing and commissioning of a web-based University Enterprise Resource Planning (ERP) system through a contract dated 23 July, 2018 at a contract cost of Kshs.51,040,000. The contract was to be executed in four phases with completion targets dates as indicated in the table below:

	Proposed Start Date	Expected Phase Date	Cost (Kshs.)
Phase I (One)	23 July, 2018	03 August, 2018	5,104,000
Phase II (Two)	23 July, 2018	13, September, 2018	15,312,000
Phase III (Three)	13 September, 2018	14 November, 2018	15,312,000
Phase IV(Four)	15 November, 2018	19 December, 2018	12,760,000
Retention	To be paid 6 months after project closure		2,552,000
Total			51,040,000

Further, an addendum dated 1 April, 2019 changed the implementation of the project from phase form to module form as per the modules contained in each phase. The addendum also extended the main contract agreement period for three (3) months to run from 1 April, 2019 up to 30 June, 2019. As at the time of audit, the contractor had only implemented phase II Student Management Module, Students' Academic Module, Students Finance, Project Management Module. Hotels and Accommodation Management Module and Staff and Student Web Portal. At the time of audit, the firm had raised invoices amounting to Ksh.21,373,000 which is approximately 42% of the total

implementation cost. Review of the implementation revealed that both phase I and II were behind the implementation schedule as indicated in the above table. Phase III and phase IV of the system have not been implemented. No explanation was provided for the delayed installation of the software.

In the circumstances, the University may not have obtained value for money on funds spent on the ERP system.

9. Irregular Procurement of Graduation Coverage Services

During the 35th and 36th graduation ceremonies held in November, 2020 and March, 2021 respectively, the services of a local media house was directly procured for provision of live coverage at a contract price of Kshs.7,900,000. Review of the procurement records revealed that the media house was not prequalified to offer the services contrary to the provisions of Section 103 of the Public Procurement and Asset Disposal Act, 2015 on when a procuring entity may use direct procurement.

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

10. Students Graduating with Outstanding Fees Balances

Review of students' debtors lists for the year under review and the University's graduation list held in December, 2020 and April, 2021 revealed that five hundred and fifty-seven (557) students graduated with unpaid fee balances amounting to Kshs.22,165,274. This was against the University's fee payment policy that requires bonafide list of eligible students compiled by Academic Affairs Registrar in consultation with the student finance office for a student to sit for university examinations.

In the circumstances, Management was in breach of the University's fee payment policy.

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 matter 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

Accrued Students' Fee Balances

Review of the student balances at the beginning of the financial year under review indicated that four thousand two hundred and seventy-four (4,274) students were invoiced. The students had outstanding fees balances amounting to KShs.221,771,120 from the previous financial year. However, Management did not provided evidence of measures taken to enforce collection of fees.

In the circumstances, it was not possible to confirm existence of effective internal controls to guarantee collection of outstanding students fees.

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 controls, 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 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 controls 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 controls, risk management and overall governance.

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 and using the applicable basis of accounting unless the Management is aware of the intention to terminate the University or to 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 University Council is responsible for overseeing the University's financial reporting process, reviewing the effectiveness of how the Management 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls 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 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 controls.

- 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 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 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 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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

29 September, 2022