

REPORT OF THE AUDITOR-GENERAL ON MULTIMEDIA UNIVERSITY OF KENYA 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 Multimedia University of Kenya set out on pages 1 to 19, 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 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 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 Multimedia University of Kenya 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 Universities Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsatisfactory Financial Performance and Negative Working Capital

The statement of financial performance reflects that during the year under review, the University recorded an operating deficit amounting to Kshs.278,676,390 (2020 Kshs.235,968,511) which increased its accumulated deficit from Kshs.1,375,276,027 in 2019/2020 to Kshs.1,653,952,417 as at 30 June, 2021. Further, the statement of financial position reflects current liabilities totalling Kshs.1,746,044,863 against current assets totalling Kshs.385,197,575 resulting in a negative working capital of Kshs.1,360,847,288. Therefore, the University may not be able to meet its financial obligations as and when they fall due. In this regard, the University had not remitted deductions in respect to pension, gratuity, third party payments and taxes, all totalling Kshs.1,239,931,854. Management has not disclosed the measures it has taken or intends to take to reverse the unsatisfactory performance and financial position.

The University is, therefore, technically insolvent and its continued operations will depend on the financial support and goodwill from the Government, creditors and bankers.

2. Unsupported Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.208,040,276 as disclosed in Note 11 to the financial statements. However, Note 15 to the financial statements includes unreceipted bank deposits totalling Kshs.10,334,299 which had not been reconciled, credited to the individual payee accounts or supported with bank reconciliation statements.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.208,040,276 could not be confirmed.

3. Long Outstanding Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs.156,122,196, as disclosed in Note 12 to the financial statements. The balance includes staff debtors' balance of Kshs.19,539,978 due from employees of the defunct Kenya College of Communications Technology who have since left the University. No satisfactory explanation was provided by Management on why the staff were allowed to leave the University without having paid the outstanding debts. Further, the balance includes an advance payment of Kshs.2,000,000 made to a private company for provision of public and media relations services in 2013. In spite of the payment, the company did not provide the respective services.

In addition, included in the balance of students' debtors of Kshs.142,156,708 is an amount of Kshs.63,653,430 which has been outstanding for more than five (5) years. Similarly, the trade debtors balance of Kshs.95,033,787, includes an outstanding amount of Kshs.79,748,066 which has also remained uncollected for a period of more than five (5) years.

In the circumstances, the recoverability of the receivables from exchange transactions balance of Kshs.156,122,196 could not be confirmed.

4. Unsupported Provision for Bad Debts

The statement of financial position reflects receivables from exchange transactions balance of Kshs.156,122,196 as detailed in Note 12 to the financial statements. Note II (h) 8 indicates that currently the University provides for bad debts as general provision at 2% of the total debtors. However, the provision reflected in Note 12 is Kshs.144,773,821 which is 48% of total receivables and not the computed amount of Kshs.6,017,920. The basis for the provision of the amount of Kshs.144,773,821 was not explained and supported.

In the circumstances, the accuracy and completeness of the provision for bad and doubtful debts amount of Kshs.144,773,821 could not be confirmed.

5. Trade and Other Payables from Exchange Transactions

5.1 Long Outstanding Payables from Exchange Transactions

As disclosed in the statement of financial position, Note 15 to the financial statements reflects trade and other payables from exchange transactions balance of Kshs.1,746,044,863. Review of records provided for audit review revealed that included in the payables balance is trade creditors balance of Kshs.280,001,068 which further includes engineering block fee note and staff quarter rent and Telkom rent of Kshs.54,429,000 and Kshs.22,344,097 respectively, which have been outstanding for over one year. No explanation or supporting documentation was provided for the nonpayment.

Further, included in the payables balance is unremitted statutory deductions amounting to Kshs.542,902,355 which comprise of Pay As You Earn (PAYE) balance of Kshs.494,954,073 and withholding VAT balance of Kshs.47,948,282. The amounts increased from the previous year's total balance of Kshs.493,038,244 by Kshs.49,864,111 or 10%. In addition, the payables included outstanding pensions balance of Kshs.479,573,672. No explanation was provided for the non-remittance, considering some payables date back to April, 2015.

5.2 Unsupported Balances

The trade and other payables balance of Kshs.1,746,044,863 also includes third-party payments of Kshs.78,090,693 had not been supported with bank statements to confirm when the amounts which were subsequently paid to the individual accounts of the third parties, while the part-time lecturers balance of Kshs.214,324,008 was not supported with information on the recruitment of lecturers, courses lectured, hours and how the amounts were arrived at. The imprest balance of Kshs.294,556 has been outstanding for more than one year and the amount was not supported with records indicating from who the amount is owed. In addition, the student and guest payments balance of Kshs.114,154,328 was not supported with names and amounts for each creditor duly authorized and validated.

In the circumstances, the accuracy and validity of the trade and other payables from exchange transactions balance of Kshs.1,746,044,863 could not be confirmed and the University may attract punitive penalties for non-remittance of these statutory deductions.

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

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 final revenue budget and actual revenue on comparable basis of Kshs.1,263,576,063 and Kshs.933,661,727 respectively, resulting to a shortfall of Kshs.329,914,292 or 26% of the budget. Similarly, the University had an expenditure budget of Kshs.1,259,318,500 against actual expenditure of Kshs.1,212,338,162 resulting to an under-expenditure of Kshs.46,980,338 or 4% of the budget.

The under collection of revenue and under expenditure affected the planned activities and might 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. Casual Employees Engaged for More than Three Months

Review of the manual payroll for the financial year 2020/2021 revealed that seventy-seven (77) casual workers were engaged continuously for more than three (3) months earning a gross salary of Kshs.9,168,694 contrary to Section 37, subsection 1(a) and (b) of the Employment Act, 2007 which requires that casual employees should not be engaged for more than period of three months continuously.

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

2. Unauthorized Impaired Receivables

Review of debtor's records revealed receivables from exchange transactions of Kshs.79,748,066 which had been outstanding for over ten (10) years. The debts were inherited from the defunct Kenya College of Communications Technology. The University has fully impaired these debts in accordance with Section 157(a) of the Public Finance Management Act, 2012 on write-off of losses proven to be irrecoverable. The records indicated that in October, 2014, Management wrote to The National Treasury through the State Department for University Education requesting for authority to write-off the debts. No information was provided to confirm whether the permission sought from The National Treasury by Management was granted.

In the circumstances, Management 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 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 governance were not effective.

Basis for Conclusion

1. Audit Risk and Governance Committee Meetings

During the year under review, the Audit Risk and Governance Committee only held three (3) meetings contrary to the provisions of the Regulations 179 of the Public Financial Management Regulations, 2015, on the functions and responsibilities of the audit committee.

In the circumstances, the identification and mitigation of risks and weaknesses existing in the systems of internal controls could not be confirmed.

2. Lack of Policy Documents

The University did not have in place an approved Information Technology (IT) Security Policy, Information Technology Strategic Plan and Information Technology Strategic Committee in place.

In the circumstances, the Management lacks a mechanism to help in detection and mitigation of any possible risk to the University.

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 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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the University'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 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.

Those charged with governance are responsible for overseeing the University's financial reporting process, reviewing the effectiveness of how 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 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 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 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 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 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 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 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

28 September, 2022