

REPORT OF THE AUDITOR-GENERAL ON GARISSA UNIVERSITY FOR THE YEAR ENDED 30 JUNE, 2023

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 the 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 Garissa University set out on pages 1 to 47, which comprise the statement of financial position as at 30 June, 2023 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 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 respect, the financial position of Garissa University as at 30 June, 2023 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 University Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Refundable Deposits

The statement of financial position reflects refundable deposits from customers balance of Kshs.15,022,411, which includes unpaid retention of Kshs.10,649,411 and caution money of Kshs.4,373,000 as disclosed in Note 22 to the financial statements. Review of KCB bank Deposits Account revealed that the bank balance as at 30 June, 2023 was Kshs.9,076, leading to unexplained variance of Kshs.15,013,335.

In the circumstances, the accuracy and completeness of the refundable deposits from customers balance of Kshs.15,022,411 as at 30 June, 2023 could not be confirmed.

2. Unsupported Trade and other Receivables Balance

The statement of financial position as disclosed in Note 17 to the financial statements reflects receivables from exchange transactions balance of Kshs.17,877,747 in respect to student receivables (outstanding fees). However, review of the billing statement revealed an outstanding student fee balance of Kshs.14,243,315, leading to unexplained variance of Kshs.3,634,432. It was also noted that the ageing analysis was not done to determine which debts are recoverable, doubtful and which ones to be written off. In addition, there was no evidence of any action taken by the Management to recover the receivables apart from issuance of the periodic fee reminder circulars.

In the circumstances, the accuracy and recoverability of the outstanding fees balance of Kshs.17,877,747 as at 30 June, 2023.

3. Lack of Motor Vehicle Ownership Document

The statement of financial position reflects property, plant & equipment balance of Kshs.1,517,591,349 as at 30 June, 2023. Included in the balance is one motor vehicle procured at a cost of Kshs.5,840,000 during the year under review. However, the Management did not provide the original logbook for the motor vehicle.

In the circumstances, the ownership and security for the motor vehicle purchased as a cost of Kshs.5,840,000 could not be confirmed.

4. Failure to Disclose Material Uncertainty in Relation to Sustainability of Services

The statements of financial position reflects current liabilities balance of Kshs.84,388,243 as at 30 June, 2023, which exceeded the total current assets of Kshs.43,584,801, resulting in a negative working capital of Kshs.40,803,442. This is an indication that the University may not be able to settle its obligations as and when they fall due and the existence of material uncertainty, which may cast doubt on the University's ability to sustain its services and its existence is dependent on continued support from the Government and creditors.

However, this material uncertainty relating to the sustainability of services and measures taken to mitigate the undesirable financial position, have not been disclosed in the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Garissa University Management in accordance with ISSAI 130 on the 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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual amounts on comparable basis of Kshs.862,105,000 and Kshs.679,244,550 respectively, resulting to an un realized revenues of Kshs.182,860,450 or 21% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.862,105,000 and Kshs.684,708,386 respectively, resulting to under absorption of Kshs.177,396,614 or 21% of the budget. Further, it was observed that the employee cost had an approved budget of Kshs.408,547,000 against an actual expenditure of Kshs.411,358,764 resulting to an over-expenditure of Kshs.2,811,764 that was budgeted for.

My opinion is not modified in respect of this 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 on in the year under review.

Other Matter

Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2023. The Management did not provide a report on how it has addressed the recommendations and findings of the previous year's audit as required by Section 31(1) (a) of the Public Audit Act, 2015.

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. Lack of Substantive Vice Chancellor and Deputy Vice Chancellor

Garissa University has been operating without a substantive Vice Chancellor for a period of six (6) years despite being granted a Charter on 23 October, 2017 to operate as a full-fledged University. It was noted that the Cabinet Secretary for Education has been granting the Acting Vice chancellor six (6) months renewable contracts. In addition, the positions for the Vice Chancellor (VC) and Deputy Vice Chancellors (DVCs) were advertised on 30 July, 2019 and interviews conducted on 3 December, 2019. However, the process of recruitment was halted because of Court orders and the case is still active in Court. This was in contravention to Section 35(1)(a) (v) of the University Act, 2012.

In the circumstances, the Cabinet Secretary was in breach of the law.

2. Failure to Appoint a Council Member

Review of the gazette notices appointing the council members by the Cabinet Secretary as per Section 36 (1) of the Universities Act No. 42 of 2012 revealed that one council member was appointed on 8 November, 2019 for a period of three (3) years. As a result, the appointment expired on 8 November, 2022 during the financial year under review. However, the Cabinet Secretary is yet to appoint a member to replace the retired member and hence, the Council was not properly constituted.

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

3. Irregular Payment of Acting Allowances

The statement of financial performance and as disclosed in Note 12 to the financial statements reflects an amount of Kshs.411,358,764 under employee costs. Included in the balance is an amount of Kshs.2,441,347 paid as acting allowances to two (2) employees who have been acting as the Vice Chancellor and Deputy Vice Chancellor for more than three years contrary to part C.14(1) of the Public Service Human Resource Policies and Procedures, 2016 which requires acting allowances not to be paid for a period exceeding six (6) months.

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

4. Long Outstanding Payables

The statement of financial position reflects trade and other payables from exchange transactions balance of Kshs.69,365,832 which includes unpaid personal claims of Kshs.45,770,797. Verification of the payables as at 30 June, 2023 revealed that an amount of Kshs.43,706,500 has been outstanding for over one-year contrary to Treasury Circular No. 10/2020 of 16 June, 2020 which requires outstanding bills to be settled as first charge in the subsequent financial year.

In the circumstance, accumulation of long outstanding pending bills may lead to litigation and interest charges.

5. Unapproved Fee Payment Mode

As previously reported, review of student fees statement and tuition fee collection bank statements revealed that the University had collected student fees through mobile

money (M-Pesa) as a convenient revenue collection mode. However, the Management has not revised its Fee Policy of 2018 to approve and incorporate the mobile money mode of fee payment.

In the circumstances, the regularity of the mobile money as a mode of receiving revenue could not be confirmed.

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

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

Weaknesses in Controls on Payroll Management

Review of the June, 2023 payroll revealed that fourteen (14) employees were being paid a net salary that is less than a third (1/3) of their basic pay during the year under review thus over committing their salary contrary to Part C.1.3 of the Public Service Human Resource Policies and Procedures Manual, 2016. In addition, the University had two (2) cases of four (4) employees with different payroll numbers but shared tax pin numbers and also two (2) cases of officers sharing Identity (ID) numbers.

In the circumstances, the effectiveness of the controls on payroll management could not be confirmed.

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 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 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.

The University Council is 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 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 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 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 University's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also: -

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.



FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

09 February, 2024