

# **REPORT OF THE AUDITOR-GENERAL ON RONGO UNIVERSITY FOR THE YEAR ENDED 30 JUNE, 2023**

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## **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**

### **Opinion**

I have audited the accompanying financial statements of Rongo University set out on pages 1 to 42, 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 then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Rongo 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 Opinion**

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

### **Emphasis of Matter**

#### **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects total budgeted receipts of Kshs.1,100,402,072 and actual receipts of Kshs.1,109,688,127 resulting to a net surplus of Kshs.9,286,055.

Similarly, the statement reflects total budgeted expenditure of Kshs.1,100,402,073 and actual expenditures of Kshs.1,075,887,862 resulting to under absorption of Kshs.24,514,210.

The under-absorption may have affected the planned activities of the University.

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 in the year under review.

### **Other Mater**

#### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved some of the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting

Standards Board templates and The National Treasury's Circular Ref: No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

## 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. Employee Costs**

##### **1.1 Unsustainable Wage Bill**

The statement of financial performance reflects employee costs amount of Kshs.765,867,101 as disclosed in Note 5 of the financial statements. This represents 74% of the total revenue amount of Kshs.1,032,009,750 comprising revenue from both exchange and non-exchange transactions and capital grants. This contravenes Regulation 26(1)(a) of the Public Financial Management (National Government) Regulations, 2015 which limits the expenditure on wages and remuneration allowances to 35% of the total receipts.

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

##### **1.2 Non-Compliance with Law on Ethnic Composition**

During the year under review, the total number of employees in the University was three hundred and sixty to (362) out of which, two hundred and sixty-one (261) or 72% were from the same/dominant ethnic community. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and no public establishment should have more than one third of its staff from the same ethnic community.

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

#### **2. Receivables from Exchange Transactions - Overdue Student Debtors**

The statement of financial position and as disclosed in Note 12A to the financial statements reflects receivables from exchange transactions balance of Kshs.62,556,982 which includes student debtors balance of Kshs.58,359,232. Review of records revealed that student debts totalling Kshs.26,815,099 had been outstanding for over thirty (30) days as at the time of audit in February, 2024. This is contrary to Section 6.3 of the University's Financial Management Policy, Revised, 2019 which allows for up to 30 days

grace period before payment for monthly fees and any other amount due on contractual obligations.

In the circumstances, Management was in breach of the University Financial Management Policy.

### **3. Slow Implementation of Work in Progress Projects**

The statement of financial position and as disclosed in Note 17 to the financial statements reflects property, plant and equipment balance of Kshs.2,022,782,492 which includes University's and Mentee Institution work in progress of Kshs.651,524,765 and Kshs.54,295,275 respectively. The following unsatisfactory matters were observed:

#### **3.1 Delay in Completion of Library Construction**

As previously reported, included in the University's work in progress of Kshs.651,524,765 is an amount of Kshs.622,455,840 relating to construction of a library as disclosed in Note 18 to the financial statements. Available records indicate the University awarded a local contractor the tender to construct a library at a contract sum of Kshs.1,358,342,492, with a commencement date of 4 January, 2019 and expected completion date of 15 January, 2021.

Review of records revealed that the contractor requested for extension of the contract period by one year on 12 March, 2021. However, physical verification carried out in December, 2023 revealed that the project remained incomplete and the contract period had been extended to a new completion date of 5 February, 2025.

In the circumstances, the delay in completion of the project has affected the library service delivery to the University community.

#### **3.2 Delay in Completion Fish Pond Project**

Included in the University's work in progress of Kshs.651,524,765 is an amount of Kshs.1,639,316 relating to construction of a fish pond as disclosed in Note 18 to the financial statements. Available records indicate the University awarded a local contractor the tender to construct a fish pond at a contract sum of Kshs.4,500,000.

However, project verification carried out in December, 2023 revealed that the project is behind schedule with respect to completion with certified works standing at 45% as 30 June, 2023 leading to time lapse. At the time of audit verification, the contractor was not on site an indication that the project may have stalled.

In the circumstances, the delay in completion of the project has affected service delivery to the University community

### **4. Failure to Remit Pension Contributions**

The statement of financial position and as disclosed in Note 19b to the financial statements reflects non-current payables from exchange transaction balance of Kshs.231,235,524 which includes payroll creditors of Kshs.179,857,554. Included in this

is unremitted amount of Kshs.163,776,582 in respect of pension fund. As at the time of audit in January, 2024, Management had settled an amount of Kshs.38,236,783 leaving an outstanding balance of Kshs.125,539,799. This is contrary to Section 53A (1) of the Retirement Benefits Act, Revised 2012 which provides that, where an employer fails to remit deductions from an employee's emoluments to a retirement benefits scheme within 15 days of the deduction, the scheme may institute proceedings for recovery of the deduction after giving the employer at least seven days' notice.

In the circumstances, the University risks incurring avoidable costs in form of penalties and compounded interest.

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**

#### **Lack of an Approved Staff Establishment**

As previously reported, review of records revealed that the University did not have an approved staff establishment. The lack of an approved staff establishment implies that the University was yet to determine the skills and optimal staffing levels required to achieve its goals and objectives.

In the circumstances, it was not possible to ascertain whether the total staff in the employment of the University was at the optimal operating level.

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 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 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 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 noncompliance. 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 the 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.



**FCPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**21 March, 2024**