

REPORT OF THE AUDITOR-GENERAL ON TAITA TAVETA UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Taita Taveta University set out on pages 14 to 38, which comprise the statement of financial position as at 30 June 2018, 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 Taita Taveta University as at 30 June 2018, 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.

Basis for Qualified Opinion

1. Financial Performance

The statement of financial position reflects total current liabilities of Kshs.210,240,211 which exceeded total current assets balance of Kshs.54,973,804 resulting to a negative working capital of Kshs.155,266,407. Further, the University realized a loss of Kshs.52,841,473, resulting to negative revenue fund of Kshs.338,740,672 as at 30 June 2018.

Consequently, the University may not be in a position to meet its financial obligations as and when they fall due and its continued existence as a going concern depends on its continued support from the Government, bankers and creditors.

2. Cash and Cash Equivalents

The statement of financial position as at 30 June 2018 reflects cash and cash equivalents balance of Kshs.14,615,790 of which the following observations were made:

2.1. Kenya Commercial Bank Ltd Student Fees Account

The statement of financial position as at 30 June 2018 reflects cash and cash equivalents balance of Kshs.14,615,790, out of which Kshs.1,121,208 is a balance in Kenya Commercial Bank Ltd Student Fees A/C. The bank reconciliation statement as at 30 June 2018 for this account reflects receipts in bank statement not yet recorded in cash book of Kshs.1,621,602, some dating as far back as April 2016. The amounts mainly were fees

payments not receipted in cash book and in the relevant student accounts. Management has not explained the reason for not recording the receipts promptly.

2.2. Kenya Commercial Bank Ltd – Catering Account

The cash and cash equivalents balance of Kshs.14,615,790 includes an amount of Kshs.757,863.50 held in Kenya Commercial Bank Ltd Catering A/C whose bank reconciliation statement reflects receipts in bank statement not yet recorded in cash book of Kshs.101,233. Further, the bank balance of Kshs.757,863.50 was used in these financial statements instead of the cash book of Kshs.656630.50 as at 30 June 2018.

Consequently, the accuracy and completeness of cash and bank balance of Kshs.14,615,790 as at 30 June 2018 could not be confirmed.

3. Audit Fees

Included in central services balance of Kshs.148,549,324 and as disclosed in Note 13 to the financial statements for the year ended 30 June 2018 is audit fees amount of Kshs.284,482. However, this is contrary to costs incurred by the Auditor-General to audit the financial statements of the University and whereby the audit fees charged by the Office of the Auditor-General in year 2017/2018 is Kshs.548,000. Records from the Office of the Auditor-General also indicates that the University had outstanding audit fees amounting to Kshs.1,096,000 as at 30 June 2018. Included in this outstanding balance is Kshs.548,000 which has been outstanding for more than two years, contrary to Section 41 of the Public Audit Act, 2015 which provides that 'funds for the Auditor-General shall consist of audit fees charged at rates prescribed by the Auditor-General.

In addition, note 24 to the financial statements discloses an outstanding audit fees balance of Kshs.618,000, hence understating the creditors balance by Kshs.478,000.

Consequently, the University is in breach of the Law and the accuracy of audit fees amount of Kshs.284,482 for the year ended 30 June 2018 could not be ascertained.

4. Bank Overdraft

As previously reported, the statement of financial position as at 30 June 2018 reflects bank overdraft balance of Kshs.73,599,080 for Kenya Commercial Bank Ltd – Main account. However, as per the availed approval letter from National Treasury, the University was approved an overdraft facility of Kshs.50 million. However, the overdraft amount had escalated to figures beyond the approved figure of Kshs.50 million by Kshs.23 million without obtaining additional approval.

This is contrary to Section 82(7) of the Public Finance Management (National Government) Regulations, 2015, which stipulates that 'no official Government bank account shall be overdrawn beyond the limit authorized by the National Treasury'.

Further, the overdraft amounts and the bank loans had resulted to huge bank interests totaling to Kshs.8,437,314 which has been wrongly classified as bank charges. As a

result, the finance cost amount of Kshs.1.5 million has been understated by Kshs.8,437,314.

Consequently, the accuracy and validity of the bank overdraft balance of Kshs.73,599,080 as at 30 June 2018 could not be ascertained.

5. Trade and Other Payables from Exchange Transactions

As previously reported, included in the trade and other payables balance of Kshs.132,747,008 as at 30 June 2018 (2016/2017 Kshs.152,259,969) and disclosed in Note 24 to the financial statements is a balance of Kshs.35,155,485 for sundry creditors. However, the sundry creditors balance includes Kshs.727,236 whose confirmation certificates from creditors amounted to Kshs.1,089,600, resulting to a variance of Kshs.362,364 which has neither been explained nor reconciled to date.

Consequently, it has not been possible to ascertain that trade and other payables balance of Kshs.132,747,008 as at 30 June 2018 is fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Taita Taveta University (TTU) 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 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. Except for the issues described in the basis for qualified opinion section of my report, there were no Key Audit Matters to report in the year under review.

Other Matter

1.0. Budgetary Controls and Performance

During the year under review, the University had expenditure budget of Kshs.759,295,784 against actual expenditure of Kshs.648,116,034 or 85%, resulting to net under-expenditure of Kshs.111,179,750 or 15% as detailed below:

Item	Final Budget (Kshs.)	Actual Expenditure (Kshs)	Over Expenditure (Kshs.)	Under Expenditure (Kshs.)	Over Expenditure %	Under Expenditure %
Personal emoluments	460,129,002	481,829,393	21,700,391		5	
Academic costs	47,005,398	25,157,218		21,848,180		46
Administrative cost	8,325,527	6,400,229		1,925,298		23

Students welfare cost	16,509,485	10,144,930		6,364,555		39
Maintenance work cost	2,409,688	1,152,139		1,257,549		52
Central services cost	139,981,251	81,976,463	-	58,004,788		41
Council Activities	10,705,770	9,374,074	-	1,331,696		12
Donor project-Payments	74,229,663	32,081,588	-	42,148,075		57
Total	759,295,784	648,116,034	(21,700,391)	132,880,141	5	15

The under expenditure of Kshs.132,880,141 may be due to possible over budgeting which may have a negative impact on implementation of planned activities and service delivery to the stake holders. Further, the Council approval of the over-expenditure of Kshs.21,700,391 on personnel costs was not availed for audit verification.

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 Qualified Opinion and Report on Lawfulness and Effectiveness in Use of Public Resources sections 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.

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. A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance.

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 and Qualified Opinion sections of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

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 such 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.

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 the management is aware of the intention to liquidate the University or cease its 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.

Those charged with governance are responsible for overseeing the University's financial reporting process.

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.

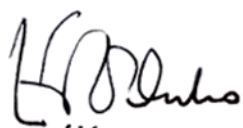
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the University's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern 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 as a going concern or 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 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 Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

20 March 2019