

REPORT OF THE AUDITOR-GENERAL ON EGERTON UNIVERSITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Egerton University set out on pages 43 to 100, which comprise the statement of financial position as at 30 June, 2019, 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 Egerton University as at 30 June, 2019, 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. Non-Disclosure of Material Uncertainty Related to Sustainability of Services

The statement of financial performance reflects a deficit of Kshs.1,600,496,151 (2018 - Kshs.928,068,236) resulting into an accumulated deficit of Kshs.2,042,432,562 (2018 - Kshs.468,266,306). Further, the current liabilities balance of Kshs.4,586,329,195 (2018 - Kshs.3,122,196,450) is in excess of the current assets balance of Kshs.1,805,894,079 (2018 - Kshs.1,720,241,970) by Kshs.2,780,435,116 (2018 - Kshs.1,401,954,480). This is indicative of the continued deterioration of the working capital position. Management has not disclosed the material uncertainty that casts significant doubt in the ability of the University to continue to sustain services as required under Paragraph 38 of IPSAS 1 - Presentation of Financial Statements.

Consequently, the financial statements as presented are not in compliance with the standards.

2. Staff Cost

As disclosed in Note 13 to the financial statements, the statement of financial performance reflects a balance of Kshs.3,395,430,455 under staff costs which includes

an amount of Kshs.150,510,964 relating to gratuities. However, the detailed listing indicating the members of staff and amounts owed was not provided for audit.

In the circumstance, the accuracy and validity of the reported staff costs expenditure of Kshs.3,395,430,455 could not be confirmed.

3. Receivables from Exchange Transactions

As disclosed in Note 25 to the financial statements, the statement of financial position reflects a balance of Kshs.1,363,081,043 under receivables from exchange transactions. The following observations were made regarding the balance:

3.1. Outstanding Imprest

Included in the balance is outstanding imprest amounting to Kshs.72,466,779 of which amounts of Kshs.7,405,439 and Kshs.33,769,938 had been outstanding for over five (5) years and thirty (30) days respectively. Further, imprest totalling Kshs.5,303,385 was issued to members of staff before surrendering the previously issued amounts contrary to Regulation 93 (8) of the Public Finance Management (National Government) Regulations, 2015.

3.2. Student Debtors

Included in the balance is student debtors amount of Kshs.869,999,599 which increased by Kshs.47,836,668 from Kshs.822,162,931 reported in the previous year. However, Kshs.804,995,489 or 93% of the student debtors balance had been outstanding for a period exceeding one (1) year. Management attributed the increase to students sitting for exams and graduating in spite of the fee balances. Evidence of measures put in place to address the issue were not provided in spite of the fact that the issue was reported in the prior year.

In view of the foregoing, the accuracy and recoverability of the reported receivables from exchange transactions balance of Kshs.1,363,081,043 could not be confirmed. In addition, the adequacy of the provision for bad debts amounting to Kshs.8,707,201 could not be confirmed.

4. Agricultural Assets

As previously reported, the University revalued its agricultural assets in the financial year 2017/2018 resulting to a downward adjustment of Kshs.7,447,372 resulting in a closing balance of Kshs.28,093,375. The resultant loss has not been supported by a reconciliation of changes in the carrying amount of biological assets at the beginning and at the end of the financial period in accordance with the requirements of Paragraph 28 of IPSAS 27.

Consequently, the accuracy and completeness of the agricultural assets balance of Kshs.28,795,285 could not be confirmed.

5. Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.5,403,901,671 under property, plant and equipment as at 30 June, 2019. The following issues were noted regarding the balance:

5.1. Fully Depreciated Assets

The reported net book value excludes assets with a historical cost of Kshs.1,299,813,838 which though fully depreciated, continues to accrue economic benefit to the University. The assets have not been revalued for incorporation in the financial statements.

5.2. Land Ownership

As reported previously, the property, plant and equipment balance includes parcels of land valued at Kshs.1,186,094,800 of which an amount of Kshs.226,833,300 relates to three (3) parcels of land without ownership documents. Although Management explained that the process of acquiring ownership documents for the land parcels was at an advanced stage, no documentary evidence to confirm this fact was provided.

In the circumstances, the accuracy, valuation and ownership of the reported property, plant and equipment balance of Kshs.5,403,901,671 could not be confirmed.

6. Investments

The statement of financial position reflects an investments balance of Kshs.150,126,156 (2018 - Kshs.150,477,691). As disclosed in Note 29 to the financial statements, the investments comprised Kshs.207,249 relating to 52,468 ordinary shares held at Kenya Airways and a long-term loan to Egerton University Investment Company amounting to Kshs.149,918,907. However, the share certificates were not availed for audit review neither was the resolution of the University Council to extend the loan provided.

In the circumstance, the existence and ownership of the investments balance of Kshs.150,126,156 could not be confirmed.

7. Unbanked Revenue on Other Services Rendered

The statement of financial performance reflects a balance of Kshs.168,013,900 under revenue from exchange transactions. Included in the balance is an amount of Kshs.25,880,354 on account of meals - catering income. However, only an amount of Kshs.12,873,073 was banked leaving out the remaining balance of Kshs.13,007,281 unbanked.

In the circumstances, the accuracy and validity of the revenue from exchange transactions - other services rendered balance of Kshs.168,013,900 could not be confirmed.

8. Trade and Other Payables

As disclosed in Note 30(a) to the financial statements, the statement of financial position reflects a balance of Kshs.3,184,421,313 under trade and other payables. Included in the balance are payroll, withholding tax and value added tax (VAT) payables of Kshs.1,977,626,598, Kshs.9,763,935 and Kshs.23,124,930 respectively. The amounts were not paid to the Kenya Revenue Authority on the stipulated dates thus exposing the University to the risk of punitive interest and penalties.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Egerton 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 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. I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Budget Control and Performance

The statement of comparison of budget and actual amounts reflects a final receipts budget and actual on comparable basis of Kshs.3,927,784,185 and Kshs.3,849,367,191 respectively resulting in under collection of Kshs.78,416,984. The statement also reflects a total expenditure of Kshs.5,447,331,207 against an approved budget of Kshs.4,707,421,754 resulting into unauthorized expenditure amounting to Kshs.739,909,453 or 16%.

2. Tegemeo Institute Financial Performance

The statement of financial performance reflects an amount of Kshs.54,070,069 being revenue receipts from Tegemeo Institute. This represents a decrease of Kshs.124,048,783 or 69% when compared to receipts of Kshs.178,118,852 reported in the previous year. Further, the Institute's expenses of Kshs.106,465,272 (2018- Kshs.181,266,557) did not decline in tandem with revenue reduction resulting to a loss of Kshs.52,395,203. Management has not explained the measures they will put in place to reverse the trend to ensure sustainability of the Institute's services.

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. Stalled Projects

The statement of financial position reflects a balance for property, plant and equipment of Kshs.5,403,901,671 (2018-Kshs.5,093,798,809) which, as disclosed in Note 28(b) to the financial statements, includes a work in progress balance of Kshs.1,897,419,465. However, the work in progress balance includes Kshs.321,389,961 for stalled projects and Kshs.375,171,489 in respect of a University Library contract valued at Kshs.2,129,001,805 and signed on 20 June, 2017, with an estimated completion date of 20 June, 2020. Although the value of works certified agreed to the balances, the work progress was behind schedule and may not be completed within the stipulated time. A site visit in October, 2019 revealed that no work was ongoing as the contractor was not on site.

Delays in completion may lead to cost escalations and the University may not get value for money on the stalled projects.

2. Irregular Staff Recruitment and Payments

During the year under review, the University recruited two adjunct professors, a lecturer and a tutorial fellow at a payroll cost of Kshs.7,299,384 without advertising contrary to Section B.4 of the Public Service Commission - Human Resource Policies and Procedures Manual for the Public Service which provides for advertisement of all vacant posts. Further, the University engaged two (2) more lecturers and a tutorial fellow on one-year contracts at total cost of Kshs.5,062,590 despite the employment freeze by the University Council. In addition, a professor within the Department of Biological Sciences was paid Kshs.2,096,483 for the period July, 2018 to January, 2019 before reporting to duty.

In the circumstance, the regularity on payroll cost of Kshs.14,458,457 could not be confirmed.

3. Excessive Council Meetings

As disclosed in Note 14 to the financial statements, the statement of financial performance reflects a balance of Kshs.22,937,292 under Council expenses. Review of records in support of the expense revealed that the Council held fifty (50) meetings, (thirty-five (35) scheduled and fifteen (15)) against the planned number of twenty-one (21) in

accordance to its calendar. No explanation has been provided for the excessive meetings. The University Council did not therefore, adhere to the set calendar of events for the year.

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 Offsite Data Recovery Centre

The University does not have an offsite data recovery center despite its heavy dependence on information technology to run its business. In the event of a disaster, the business operations of the University may be interrupted for a significantly long period of time while the risk of failing to recover is high.

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 control, 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 going concern basis of accounting

unless Management is aware of intention to liquidate 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 financial reporting process, reviewing the effectiveness of how the University 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 overall 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 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 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 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 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

09 March, 2021