

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying Financial Statements of Egerton University Investment Company set out on pages 11 to 39, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit or loss and other comprehensive income, statement of cash flows, statement of changes in equity 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 effects 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 Investment Company at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Public Finance Management Act, 2012 and the Companies Act, 2015 of the laws of Kenya.

### **Basis for Qualified Opinion**

#### **1. Material Uncertainty Relating to Going Concern**

The statement of profit or loss and other comprehensive income indicates that the Company incurred a loss of Kshs.12,087,715 (2018 – Kshs.19,392,891) which as reflected in the statement of financial position increased the accumulated loss to Kshs.18,181,928 (2018 – Kshs.6,094,214). In spite of the fact that the negative trend casts significant doubt on the ability of the Company to continue to operate as a going concern, necessary disclosures on the material uncertainty relating to going concern have not been incorporated in the financial statements.

#### **2. Cash and Bank Balances**

As disclosed in note 16 to the financial statements, the statement of financial position reflects Bank and Cash balances of Kshs.10,694,216; (2018 – Kshs.8,771,618). The following observations were made:-

##### **2.1 Unaccounted for Cash**

Note 16 to the Financial Statements reflects a cash in hand balance of Kshs.13,535,193 as at 30 June, 2019. However, documents provided indicated that

the balance comprised of Undeposited Funds; Reception Cash Register; Bank Deposit and Credit Card Receipts of Kshs.4,398,613; Kshs.9,051,925; Kshs.17,655 and Kshs.67,000 respectively being revenue receipts in the prior years but unbanked as at year end. Management explained that the money had been spent at source but was yet to be accounted for by the responsible officers and that the matter had been escalated to the Board of Directors (BOD) for further action.

## **2.2 Presentation and Disclosure**

The reported bank and cash balance of Kshs.10,694,216 has been arrived at after offsetting the overdrawn bank balances of Kshs.2,840,977 against the cash in hand balance of Kshs.13,535,193 instead of disclosing the overdrawn balances separately under current liabilities as required under paragraph 32 of the International Accounting Standards No.1 – Presentation of financial statements.

## **2.3 Long Outstanding Bank Reconciliation Items**

The Bank Reconciliation Statements for the three (3) bank accounts for the month of June, 2019 reflected receipts in bank statements but not recorded in the cashbook amounting to Kshs.725,317, payments in bank statements but not recorded in cashbook amounting to Kshs.938,738 and unpresented cheques amounting to Kshs.1,212,187 which included stale cheques totalling to Kshs.94,917, some of which dated as far back as 30 August, 2016. No satisfactory explanation was provided for the delay in clearing the reconciling items reflected in the bank reconciliation statements.

In view of the foregoing, the existence and accuracy of the reported cash and bank balance of Kshs.10,694,216 could not be confirmed. Further, the Financial Statements as prepared and presented do not comply with IFRS requirements.

## **3. Unsupported Borrowings**

As previously reported, the statement of financial position reflects borrowings of Kshs.150,119,907 under non-current liabilities. Available information indicates that the Company procured a loan refinancing of Kshs.5,000,000 from the bank that was applied to pay off the current and non-current borrowings loan portions amount of Kshs.2,688,051 and Kshs.2,311,949 respectively. Management has however, not supported the borrowings by way of formal legal agreement to confirm terms and conditions of the loan.

In the circumstances, the validity and accuracy of the net borrowings balance of Kshs.150,119,907 as at 30 June, 2019 could not be confirmed.

## **4. Long Outstanding Receivables**

As disclosed in note 15 to the financial statements, the statement of financial position reflects a balance of Kshs.116,457,726 under trade and other receivables. A review of the aging analysis provided indicated that balances totalling to Kshs.110,624,414 or 95% had been outstanding for periods exceeding one year. Adjustments necessary for fair statement of the balances by way of provisions for doubtful debts as a result of likely impairment have not been incorporated in the financial statements. Further,

Management had not put in place concrete measures for the recovery of the long outstanding debts.

Under the circumstances, the accuracy and recoverability of Trade and Other Receivables amounting to Kshs.116,457,726 could not be confirmed.

## **5. Trade and Other Payables**

The statement of financial position reflects a balance of Kshs.116,021,673 under trade and other payables which includes payroll payables, withholding taxes and catering levy of Kshs.43,878,045, Kshs.10,043,842 and Kshs.1,290,089 respectively. However, the balance does not include interest and penalties arising as a result of delays in settling the liabilities and also excludes an amount of Kshs.1,701,656 being audit fees payable to the Office of the Auditor-General.

In the circumstance, the accuracy of the Trade and Other Payables balance of Kshs.116,021,651 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Egerton University Investment Company 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. There were no key audit matters to report in the year under review.

## **Other Matter**

### **Budgetary Performance**

The statement of comparison of budget and actual amounts reflects final revenue budget and actual revenue on comparable basis of Kshs.183,233,462 and Kshs.119,074,964 respectively resulting in under-performance of Kshs.64,158,498 or 35%. Similarly, the Company spent Kshs.134,722,454 against an approved budget of Kshs.147,078,467 resulting to an under-expenditure of Kshs.12,356,013 or 8.4% of the budget. The underfunding and underperformance affected the planned activities and may 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, I confirm that, nothing 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**

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, 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.

### **Basis for Conclusion**

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.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the Companies Act, 2015, I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and
- iii. The Company's financial statements are in agreement with the accounting records and returns.

### **Responsibilities of Management and the Board of Directors**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company 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 Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company 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 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 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 Company's ability to continue as a going concern. 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 Company to cease to continue as a going concern.
- 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 Company 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**