

REPORT OF THE AUDITOR-GENERAL ON EGERTON UNIVERSITY INVESTMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Egerton University Investment Company Limited set out on pages 16 to 33, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period 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, the financial position of Egerton University Investment Company Limited as at 30 June, 2017 and (of) its financial performance and its cash flows for the year ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015.

Further, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion section of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Understatement of Lord Egerton Castle Revenue

The statement of comprehensive income statement reports revenue receipts from Lord Egerton Castle as Kshs.4,198,006. However, the relevant revenue cash book reflects income receipts of Kshs.6,904,042.20 for the same period thereby understating the periods' revenue by Kshs.2,706,036.20.

In the absence of any explanation for the difference, it has not been possible to confirm the accuracy of the Lord Egerton Castle revenue.

2. Farm Expenses Relating to Prior Period

The statement of other comprehensive income reports farm expenses of Kshs.31,904,697. However, included in this expenditure are chemicals procured from Greenlife Crop Protection on 25 April 2016 amounting to Kshs.11,680,450 which do not relate to the transactions of the financial year under review and as such overstate the expenses by the same amount. The management has not made any explanation or adjustment to the books of accounts.

Accordingly, the accuracy of farm expenditure is not accurately stated.

3. Inadequate Disclosure of Agricultural Assets

The statement of financial position for the year ended 30 June 2017 reports agricultural assets of Kshs.62,302,070. The amount increased from Kshs.51,640,495 as at 30 June 2016 to Kshs.62,302,070 as at 30 June 2017 resulting to an increase in value of Kshs.10,661,575.

The increase in value of Kshs.10,661,575 has not been supported by a reconciliation of changes in the carrying amount of the biological assets at the beginning and the end of the current period as required by International Accounting Standard No.41 on Agriculture. In the absence of the reconciliation, it is not possible to confirm what the value of Kshs.10,661,575 represents and valuation criteria applied.

In addition, included in the amount of Kshs.62,302,070 are agricultural produce aggregating to Kshs.32,561,070 relating to seed and grain stocks, commercial maize and wheat seed which do not fit in the definition of biological assets and should be disclosed under inventories.

4. Over Recovery of Depreciation Charge for the Year

The statement of financial position shows that the value of property, plant and equipment decreased from Kshs.79,463,113 at the beginning of the year to Kshs.73,910,499 as at 30 June 2017, resulting to a reduction in value of Kshs.5,552,614. However, the depreciation charge for the year is reported as Kshs.10,760,891 under note 20 to the financial statements, giving rise to a variance of Kshs.5,208,277 when compared against asset reduction amount.

The depreciation charge increase and asset reduction amounts are not consistent while the accounting policy remained the same as in prior years. Therefore, the depreciation charge for the period has been over recovered by Kshs.5,208,277.

5. Irregular Advance Payments to Trade Creditors

The statement of financial position reported trade and other payables of Kshs.100,243,441 as at 30 June 2017. However, included in the amount are advance payments of Kshs.3,121,883.51 made to creditors for the supply of goods which had not been delivered as at the close of the financial year since the ledger accounts reflected negative balances. Payment for goods or services which have not been received or services rendered is breach of public finance management regulations. The company is therefore in breach of the law.

6. Non Accounting and Payment for Value Added Tax

The statement of financial position reports trade and other payables of Kshs.100,243,441. Included in the amount are Value Added Tax outstanding payments of Kshs.4,053,111. However, the Company's sales day books reflect Value Added Tax output of Kshs.13,265,735.40 from gross sales of Kshs.96,206,245.60 made in the year. VAT payable at the end of the year therefore appears understated.

7. Loans Advanced to Egerton Investment Company

The statements of financial position as at 30 June 2017 reported loans advanced to Egerton Investment Company of Kshs.148,146,884. Included in the amount is Kshs.145,400,000 and Kshs.2,756,884 loan from the Egerton University and K.C.B Bank respectively.

It was observed that there was no legal agreement between the Egerton University and the Company on terms and conditions of the Kshs.145,400,000 loan and as such no repayments have been made as at the close of the financial year. In addition, the Company does not have corresponding assets matching the loan amount in its books of account.

8. Going Concern

During the financial year under review, the Egerton Investment Company made a loss of Kshs.40,019,608 compared to a loss of Kshs.60,271,391 reported in the previous year. Further, the net assets reduced from Kshs.54,708,307 as at 30 June 2016 to Kshs.13,298,679 as at 30 June 2017 by a net decrease of Kshs.41,409,628 due to net loss incurred during the year under review which is a clear indication that the Company has thin capitalization. The future operations of the Company as a going concern may not be guaranteed due to limited working capital to meet its operational needs as well as its both current and long term obligations as and when they fall due.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Egerton University Investment Company Limited 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 qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 Company's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so..

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 Company's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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 judgment 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 Company'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 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 the 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.

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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

09 August 2018