

REPORT OF THE AUDITOR-GENERAL ON EGERTON UNIVERSITY INVESTMENT COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Egerton Investment Company Ltd set out on pages 16 to 30 which comprise the statement of financial position as at 30 June, 2018 and the statement of Comprehensive Income, statement of changes in equity and statement of cash flows 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 matter 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 Investment Company Ltd as at 30 June, 2018 and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the companies Act 2015, and the Public Finance Management Act 2012.

Basis for Qualified Opinion

1.0 Financial Statement Misstatements

1.1 Unaccounted for Cash

The statement of financial position reports Cash in hand balance of Kshs.13,535,193 as at 30 June 2017 out of which Kshs.4,398,613 are described as un-deposited funds, Kshs.9,051,925 reception cash register and Kshs.84,655 bank deposit and credit card receipts representing revenue received in prior years that had not been banked as at the close of the financial year as disclosed in note 21. The management explained that the monies were used at source and are yet to be accounted for by the responsible officers. However, no documents were presented to show how the cash was used.

In additions, note 21 to the financial statements also reports overdrawn cash book balance of Kshs.(4,763,574) that is not supported by a corresponding list of un-presented cheques written for payment of suppliers or bank overdraft certificate of balance.

Therefore the existence and accuracy of the cash in hand balance of Kshs.13,535,193 and overdrawn cash book balance of Kshs.(4,763,574) are doubtful.

2.0 Presentation and Disclosure

2.1 Non-Presentation of Statement of Comparison of Budget and Actual Expenditure Amounts

The financial statements do not present a statement of comparison of Budget and Actual Expenditure amounts in breach of the Kenya Public Sector Accounting Standard Board requirements and therefore the accuracy or performance of the budget could not be measured against incurred expenses.

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

Emphasis of the Matter

1.0 Going Concern

The financial statement reported an improvement of Kshs.20,626,716 in performance in that the operating loss reduced from Kshs.(40,019,608) reported in previous year to the current year balance of Kshs.(19,392,892). However, the net assets reduced from Kshs.13,298,679 as at 30 June 2017 to Kshs.(6,094,214) as at 30 June 2018 which appears to be inconsistent with the improved performance noted in the operating loss reduction.

The operating loss of Kshs.(19,392,892) reported in the year is a clear indication that the company is incurring high operational costs, lacks a debt collection or enforcement strategy, over relies on credit facilities from suppliers, and therefore its future operations as a going concern may not be guaranteed due to limited working capital available to meet its business operational needs as well as obligations as and when they fall due.

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 matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matter to communicate in my report.

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

1.0 Revenues

1.1 Unaccounted for Hay Revenue

Note 8 to the financial statements, sales of farm produce reports a total income of Kshs.36,553,130 which includes revenue from Hay sales of Kshs.7,306,440. However, examination of farm records revealed that a total of 65,487 bales of hay were harvested, out of which 36,533 bales were sold at the rate of Kshs.200 per bale resulting to a revenue of Kshs.7,306,440, 26,420 bales applied as animal feeds, 2000 bales lent to Kenya farm and a balance of 534 bales unaccounted for. Therefore, 2,534 bales of hay with a revenue value of Kshs.506,800 could not be confirmed due to lack of proper accounting documentation. In the circumstance, the total revenue balance could not be confirmed.

2.0 Unsupported Loans Advanced to Egerton Investment Company

The statements of financial position as at 30 June 2018 reports a total loan liability of Kshs.152,807,958 advanced to the Company by Egerton University which is not supported by a list of assets or formal legal agreement showing the terms and conditions. In the circumstances, the validity of the loan agreement and balances could not be confirmed.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

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 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

1.0 Lack of Internal Control Reviews by Internal Audit

1.1 Unlimited Grant of Super User Rights in Sage Accounting System

The company's head of accounting unit was granted unlimited super user rights in the Sage Accounting System Software that is used in processing and reporting financial transactions. However, no internal audit reviews were carried out during the period to confirm that no instances of abuse occurred and that the internal controls systems were working as intended. Therefore, the effectiveness of the internal audit function could not be confirmed.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 section 730 of 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 Egerton Investment Company Limited, so far as appears from the examination of those records; and,
- iii. The financial statements are in agreement with the accounting records and returns.

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 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 governance.

In preparing the financial statements, management is responsible for assessing the 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 the management 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 company's 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 company's 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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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 company's 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 company's 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 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 controls 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.

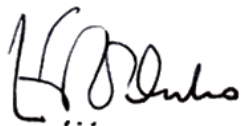
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 controls.

- 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 or 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 company to cease to continue as a going concern or 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 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.



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

Nairobi

16 May 2019