

REPORT OF THE AUDITOR-GENERAL ON MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Masinde Muliro University of Science and Technology set out on pages 23 to 51, which comprise the statement of financial position as at 30 June 2017, 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, the financial statements do not present fairly, the financial position of Masinde Muliro University of Science and Technology as at 30 June 2017, and of its performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Universities Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Trade and Other payables from Exchange Transactions

Supporting schedules for the Trade and other payables from exchange balance of Kshs.748,358,785 reflected in the Statement of financial position denote a sum Kshs.274,525,625 in relation to the account resulting to an unexplained difference of Kshs.88,102,426.

Further, the sum of recurrent payables shown in the schedule for the account reflects a balance of Kshs.255,778,548 whereas the financial statements as shown in Note 23 to the financial statements, reflect a balance of Kshs.17,236,119. Therefore the financial statements are understated by Kshs.238,542,429.

Similarly, whereas the financial statements reflect a tax arrears balance of Kshs.47,221,672 also under Note 23 to the financial statements, the ledger reflects a debit balance of Kshs.102,537,102 in relation to the account resulting to a variance of Kshs.55,315,450 which management have not explained.

In the circumstance, the trade and other payables from exchange transactions balance of Kshs.748,358,785 as at 30 June 2017 is not fairly stated.

2. Cash and Cash Equivalents

The cash and cash equivalents balance of Kshs.431,766,000 reflected in the statement of financial position as at 30 June 2017 is not adequately supported as several of the University's bank reconciliation statements have not been updated and reconciled.

In the circumstance, the accuracy of the balance cannot be confirmed.

3. Receivables from Non-Exchange Transactions

Included in the outstanding staff imprests balance of Kshs.45,276,600 as at 30 June 2017 shown under Note 18 to the financial statements are imprests totaling Kshs.6,341,746 that were overdue for surrender as at 30 June 2017, with some dating back to the year 2015.

Failure to surrender imprests on time contravenes public financial management regulations and also puts the validity and occurrence of expenditure reported to have been incurred through the imprests in doubt.

4. Accumulated Revenue Surplus

The statement of financial position reflects an accumulated revenue surplus of Kshs.127,769,314 as at 30 June 2017 after prior-year adjustments of Kshs.638,407,401 were made against the accumulated revenue deficit of Kshs.557,035,301 as at 30 June 2016. However, no supporting document was presented for audit to explain the said adjustments. In addition, transfers of trade payables to revenue reserves totaling of Kshs.238,542,424 shown under Note 28 to the financial statements have not been analyzed to show how they were arrived at.

In the circumstance, it is not possible to confirm the accuracy of the accumulated revenue reserve balance of Kshs.127,769,314 reflected in the financial statements as at 30 June 2017.

5. Irregularities and Unsupported Adjustments for Property Plant and Equipment

The University failed to maintain detailed records on additional assets costing Kshs.166,018,355 shown in Note 20 to the financial statements as having been acquired during the year under review. In addition, records on the assets, including local purchase orders, suppliers' invoices, delivery notes and goods received notes, were not presented for audit.

Among the assets included in the balance of Kshs.166,018,355 were plant and equipment, computers and furniture costing , Kshs.17,723,544, Kshs.15,528,172 and Kshs.483,608 respectively.

In the circumstance, it is not possible to confirm the accuracy of the property, plant and equipment balance of Kshs.1,391,780,461 reflected in the statement of financial

position as at 30 June 2017.

6. Unreconciled Balances and Adjustments

Note 29 to the Financial Statements indicates that a bank reconciliation adjustment of Kshs.221,217,991 was made in the Cash Flow statement. However, the Note does not show how the balance was arrived at.

Similarly, the inventories balance of Kshs.22,554,036 shown in the statement of financial position as at 30 June 2017 differs with the supporting schedules balance of Kshs.23,518,997 leading to an unreconciled difference of Kshs.964,961. Further, some stores balances shown in bin cards differed with balances included in the financial statements in relation to several inventory items as detailed below:

Location	Financial Statement Balance Kshs.	Stock Card Amount Kshs.	Variance Kshs.
Hostel & Accommodation	530,326.00	520,325.70	10,000.30
Games and Sports	759,790.00	880,598.00	(120,808)
Bookshop Stock	268,790.00	268,790	-
Clinical Drugs Stock	2,843,803.00	2,842,943.00	860
Estate Building Materials	9,325,039.00	7,185,345.00	2,139,694.00
Stationery Central Stores	6,810,160.00	9,361,648.00	(2,551,488.00)
Dry Food	1,496,184.00	1,494,386.00	1,798.00
Total	22,034,092.00	22,554,035.70	(519,943.70)

No plausible explanation has been provided by management for the discrepancies. In the circumstances, the accuracy of the inventories balance of Kshs.23,522,000 reported in the financial statements as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Masinde Muliro University of Science and Technology 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 adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for matters described in

the Basis for Adverse Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Procurement of Turkana University College

The University followed all the laid down procurement procedures in purchasing the assets and liabilities of Mount Kenya University campus in Lodwar Town to set up Turkana University College (TUC). After initiating the process of establishing TUC, the management wrote to the Public Procurement Regulatory Authority for approval to use direct procurement as per Sections 103 and 104 of the Public Procurement and Assets Disposal Act No.33 of 2015. After obtaining this approval, the University carried out valuation of the proposed assets through the Government Valuer who assigned the assets a going concern value of Kshs.1,200,000,000. However, the final valuation was not undertaken in accordance with the three fundamental approaches cited in the valuation report, namely asset approach, market approach, and income approach as none of the three approaches yielded the final valuation figure of Kshs.1,200,000,000. In addition the valuation report did not indicate the methodology used to arrive at the final valuation sum. Further, there was no specific value assigned to the main campus building complex, fence, land, main entrance and gate house, garage, generator house, main library, three hostel blocks, ablution block site works and drive ways and water reticulation system.

In addition, the valuation report did not disclose values for the following other categories of assets:

- (i) Buildings made up of:
 - Library,
 - Gate and Gateways,
 - Main Administration Buildings.
 - Hostels (3 No.)
- (ii) Other tangible assets made up of:
 - Computers,
 - Motor vehicles,
 - Plant and Equipment,
 - Furniture and Fittings
- (iii) Fence and Land made up of:
 - Land
 - Fence

The Valuer had the value of these aggregated at Kshs.850,000,000 as detailed below:

Category	Value (Kshs.)
Land and Fence	110,000,000

Buildings and Site works	670,000,000
Other Tangible Assets	<u>70,000,000</u>
Total	<u>850,000,000</u>

Therefore, the valuation report could not be relied upon to arrive at the correct aggregate value for the assets.

The University finally purchased the property at the agreed value of Kshs.1,150,000,000 and had, at the time of the audit, paid Kshs.971,507,500 out of the purchase price.

In view of these anomalies, it has not been possible to confirm that in purchasing the assets for Turkana University College, the University attained good value for the money spent.

2. Undelivered Machinery

The University in June 2015 contracted a local vendor to supply, deliver and install medical lab equipment and machines at a cost of Kshs.4,232,552 as detailed below:

Item	Description	Qty	Unit Price	Total Price
1	Automated Centrifuge	1	459,144	459,144
2	Deep Freezer, -80C Upright	1	933,916	933,916
3	Deionizer	1	100,224	100,224
4	Complete Electrophoretic System	1	179,684	179,684
5	Fume Hood	1	522,232	522,232
6	PCR Machine	1	1,101,072	1,101,072
7	Safety Cabinet class 11	1	819,540	819,540
8	Disposable Plastic Pipettes, 500 pcs/pkt	2	11,020	22,040
9	Conical Flask ,500 mls	10	500	5,000
10	Electrical Portable Autoclaves 18 Litres	3	29,900	89,700
	Total			4,232,552

However, the PCR Machine valued at Kshs.1,101,072 was not supplied although full payment for the contract, including the machine, was made to the supplier . Management have not explained why the supplier failed to supply the machine as required.

3. Irregular Approval of the Budget

The budget document submitted for audit review was not approved by the Cabinet

Secretary as required. Further, approval of the budget by the members of the University Council was not made on the budget document. Instead the document was attached to the minutes of the meeting of the University Council that approved the budget.

Failure to append the Council's approval on the budget document left room for alteration of the budget without authority. Also lack of the Cabinet Secretary's approval could result in expenditure being incurred on unimportant items.

4. Unexplained Budgetary Variations

The University excluded expenditure items totaling Kshs.187,000,000 in its procurement plan although they were factored in the budget. The items are listed below:

Budget Item	Budget Items Not in Procurement Plan	Amount Kshs.
	Description	
36	Gown Hire expenses	1,500,000
39	Hire of Plant and Machinery	500,000
41	Hospitality and Consumables	2,000,000
60	Medical Expenses-staff	50,000,000
80	Rent and rates	50,000,000
84	Security Services	32,000,000
88	Show and Exhibition expenses	5,000,000
93	Student work-study Expenses	5,000,000
97	Teaching Materials	15,000,000
108	Water & Conservancy-Admin	26,000,000
Total		187,000,000

As noted in this report, the University procured land and buildings meant for setting up of Turkana University College at a cost of Kshs.1,150,000,000.00. However, the expenditure had not been included in the budget and the procurement plan for the year under review.

No plausible explanation has been provided by management for the unauthorized expenditure.

Further, the statement of comparison of budget and actual amounts for the year under review indicates that the University's expenditure budget for the year under review was Kshs.3,918,024,742 but actual expenditure was Kshs.3,582,162,057 resulting in under-expenditure of Kshs.352,736,166. Similarly, the University had budgeted to collect revenue totaling 4,030,320,125 but collected Kshs.3887,926,684 resulting in a

shortfall of Kshs.142,393,441. The shortfall of revenue and the under-expenditure constrained the University from carrying out all its programmes and activities planned for the year under review. For example, the University had budgeted to buy the following items expected to cost Kshs.15,000,000 but did not incur any expenditure on them during the year under review:

Items	Kshs.
Books and Journals	12,000,000.00
Sports Equipment	2,500,000.00
Hire of Transport Plant and Equipment	500,000.00
Total	15,000,000.00

Failure to implement the budget as approved constrained the activities of the University during the year under review and as a result services to students and staff were not delivered as planned.

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 Public Sector Accounting Standards (Cash 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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management intends to liquidate the University or its 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 University'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. 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, but not 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 offering 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

A handwritten signature in black ink, appearing to read 'E. Ouko', with a small mark below the first letter.

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

Nairobi

11 October 2018