

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Meru University of Science and Technology set out on pages 1 to 31, 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, 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 Meru University of Science and Technology as at 30 June 2017, 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.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter Sections of the report, based on the procedures performed, I confirm that, 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

1.0 Property, Plant and Equipment

1.1 Construction of an Engineering Tuition Block

Included in the property, plant and equipment balance of Kshs. 1,660,240,417 as at 30 June 2017 was Kshs. 474,896,783 spent on the construction of the Engineering Tuition Block. The project was awarded to Newspace Creations contractors on 6 December 2011 at a contract price of Kshs. 474,896,783 and a contract time of sixty-eight (68) weeks from 6 December 2011 to 26 March 2013 as per paragraph five (5) of the Contract Agreement. However, a physical inspection carried out on 13 March 2018 revealed that the project had not been completed, four years after the completion deadline and it was not possible to ascertain whether it would be completed at the contracted price. Further, no certificates of completion were availed to show the percentage of work done. The building was to be built up to three floors but the contractor was doing the second floor at the time of the physical verification on 13 March 2018. No records were made available to show that there was a contract time extension.

In the circumstances, the propriety and value for money for the expenditure of Kshs.474,896,783 for the construction of the engineering tuition block could not be confirmed as at 30 June 2017.

2.0 Irregular Procurement of Advertisement Services

Included in the operational expenses balance of Kshs.733,523,014 was Kshs.7,623,850 spent on advertising and publicity which further included four payments totaling to Kshs.3,676,040 made to Nation Media Group for advertisement purposes. A review of the supporting documents however revealed that the supplier was directly procured contrary to the requirements of Section 103(2)(a) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the propriety and value for money for the expenditure of Kshs.3,676,040 as at 30 June 2017 cannot be confirmed.

3.0 Financial Performance

The statement of financial performance for the year under review reflects a huge performance decline of Kshs. 143,934,482, (168%) from a surplus of Kshs. 85,840,331 for the financial year 2015/2016 to a deficit of Kshs. 58,194,151 for the year under review. An analysis of revenue and expenditure revealed that the University's annual recurrent grant from the Ministry of Education was Kshs.553,088,149, an amount similar to the previous year's grant. Revenue from exchange transactions however reduced by 18% from Kshs.350,165,487 in the previous year to Kshs 287,033,222 in the year under review. On the other hand, the University's expenditure increased by 7% from Kshs.817,413,227 in the previous year to Kshs.877,343,522 in the year under review. Although the going concern status of the University is not threatened, this may change in future if the decline in performance continues.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Meru 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 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. Except for the matters described in the Basis for Qualified Opinion and Other matter sections of my report, I have determined that there were no Key Audit Matters to communicate in my report.

Other Matter

1.0 Ethnic Balancing

As in the previous year, a review of human resource management documents made available for audit verification revealed that the University has not complied with

Section 7 (1)(2) of the National Cohesion and Integration Act, 2008 (Revised 2012) which requires that no public establishment shall have more than one third of its staff from the same ethnic community.

Meru University of Science and Technology had a total staff of three hundred and fifty-two (352) as follows.

Ethnic Community	No of Staff	Percentage(%)
Meru	254	71.60
Kikuyu	29	8.20
Embu	14	4.00
Luo	12	3.40
Luhya	10	2.90
Kamba	9	2.50
Kisii	9	2.54
Kalenjin	8	2.25
Borana	4	1.13
Maasai	1	0.30
Rwandese	1	0.30
Taita	<u>1</u>	<u>0.90</u>
Total	<u>352</u>	<u>100.0</u>

Out of the total of 352 employees, 254 (71.6%) were from the dominant ethnic community while those from other communities comprised only 28.4 (28%) of the establishment.

In view of the foregoing, Meru University of Science and Technology was in breach of the provisions of the National Cohesion and Integration Act, 2008 (Revised 2012).

2.0 Budgetary Control and Performance

During the year under review, the University had a budgeted revenue of Kshs.840,095,507 while the actual receipts were Ksh.840,160,437. On the other hand, the budgeted expenses were Ksh.914,620,094 but the actual expenditure was 898,304,590 resulting in under expenditure of Ksh.16,315,504 as analysed below;

Comparison of Budget and Actual Amounts			
Item	Final Budget	Actual on Comparable Basis	Performance difference
	Kshs.	Kshs.	Kshs.

	2016/2017	2016/2017	2016/2017
Revenue			
Government Grant	553,088,150	553,088,149	-1
Tuition and other Fees	265,934,600	258,942,829	-6,991,771
Other incomes	21,072,757	28,129,459	7,056,702
Total Revenue	840,095,507	840,160,437	64,930
Expenditure			
Personnel Emoluments	607,061,158	574,687,065	32,374,093
Council Expenses	9,000,000	9,529,553	(529,553)
Operation/Administrative cost	230,213,535	207,727,794	22,485,741
Maintenance	14,821,214	17,512,157	(2,690,943)
Depreciation and Armotisation	53,524,187	88,848,021	(35,323,834)
Total Expenditure	914,620,094	898,304,590	16,315,504

Consequently, the University did not operate within the approved budget and this might have had a negative impact on service delivery.

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 (Accrual 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 continue as a going concern, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the University 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 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 scepticism 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 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 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 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

27 June 2018