

REPORT OF THE AUDITOR-GENERAL ON MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY FOR THE YEAR ENDED 30 JUNE 2018

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 38, which comprise the statement of financial position as at 30 June 2018, 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 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 Meru University of Science and Technology as at 30 June 2018 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 Universities Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracy in the financial statements

1.1 Cash and bank balances

Note 12 to the financial statement reflected Kshs.409,488,892 in respect to cash and bank balances which included Kshs.27,799,961 in respect to Treasury Bills balance with the Central Bank of Kenya and whose reconciliation statement was not availed for audit review. In addition, the certificate of balance from the Central Bank of Kenya on Treasury Bills balance reflected a balance of Kshs.28,000,000 resulting in unreconciled variance of Kshs.200,039 between the financial statements and the certificate of balance.

In the circumstances, the accuracy of cash and bank balance of Kshs.409,488,892 reflected in the financial statements as at 30 June 2018 could not be confirmed.

2.0 Property, Plant and Equipment

2.1 Construction of an Engineering Tuition Block

The previous year's audit report indicates that Kshs.474,896,783 was spent in respect to the construction of an Engineering Tuition Block as at 30 June 2017. The financial statements for the year under review reflects a balance of Kshs.1,880,916,585 in respect to property, plant and equipment balance of as at 30 June 2018. However, other than an addendum dated 28 January 2015 extending the construction contract period from 2013 to 2020 and Kshs.38,070,664 comprising of three interim certificates amounting to Kshs.31,767,070 and three payments to consultants amounting to Kshs.6,303,594, no other documents was availed for audit review to confirm the total cost incurred during the year, the overall completion level and cost of the project as at 30 June 2018.

In the circumstances, it was not possible to ascertain how much has been spent in respect to the construction of the engineering tuition block including where there is a respective value for money.

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 section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflected budgeted revenue of Kshs.870,685,117 and actual revenue of Kshs.982,563,833 resulting to excess revenue of Kshs.111,878,716 as shown below: -

Summarized Revenue Analysis				
	Budget (Kshs)	Actual (Kshs)	Over (Kshs)	Over %

Grants in Aid	668,006,384	766,864,780	98,858,396	13%
Tuition and other Fees	169,427,346	176,446,022	7,018,676	4%
Other Income	33,251,387	39,253,031	6,001,644	15%
Total income	870,685,117	982,563,833	111,878,716	11%

The University over-realized the budget by Kshs.111,878,716 which may be an indication of under budgeting. Therefore, there is need for the management to review its budgeting mechanism with a view to coming up with own appropriate revenue budget which will grow revenue base of the University.

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflected a budgeted expenditure of Kshs.1,109,924,377 and actual expenditure of Kshs.1,109,211,861 resulting to an under-expenditure of Kshs.20,776,112 on six items and an over-expenditure of Kshs.20,063,595 on two items as follows;

Summarized Expenditure Analysis					
Operational Expenses	Budget (Kshs)	Actual (Kshs)	Over (Kshs)	Under (Kshs)	% over
a) Personnel Emoluments	766,763,110	763,530,192		(3,232,918)	-0.42%
b) Maintenance Costs	31,112,964	33,441,180	2,328,216		7.48%
c) Council Expenses	17,117,391	16,929,485		(187,906)	-1.10%
d) Other Operational Expenses	165,138,357	157,969,273		(7,169,085)	-4.34%
Academic Costs	51,319,903	44,103,038		(7,216,865)	14.06%
Administration Costs	25,366,490	24,421,000		(945,490)	-3.73%
Student Welfare	14,976,014	12,952,166		(2,023,848)	-
Depreciation	38,130,148	55,865,527	17,735,379		46.51%
Total expenses	1,109,924,377	1,109,211,861	20,063,595	(20,776,112)	16.83%

The University under spent by Kshs.20,776,112 of the total budget projection which translated to equivalent services denied to the students and staff. Further, the Kshs.20,063,595 over-expenditure on two items during the year had no budgetary approval. There is need for the management to adopt a realistic budget to avoid instances of excess or under budgeting for efficient and effective delivery of goods and services to the University stakeholders.

2.0 Financial Performance

The University incurred a deficit of Kshs.126,648,027 (2017 deficit Kshs.58,194,151) for the year under review. The deficit resulted to increase in negative reserve fund

from Kshs.68,631,601 as at 30 June 2017 to Kshs.190,299,574 as at 30 June 2018 and as reflected in the statement of financial position for the same year.

If strategies are not put in place urgently to reverse the trend the University is likely to face financial challenges in the near future.

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 Irregularities in Procurement of Library Books

Note 7(d) to the financial statement reflected Kshs.155,542,311 in respect to other operation expenses which included Kshs.18,308,299 in respect to library expenses incurred on library books procured through a tender awarded to a firm on 18 December 2017. However, the tender adverts were not availed for audit verification and the tender opening committee and evaluation committee members did not initialize each page of the minutes contrary to Section 78 (11) and 83(3) of the Public Procurement and Assets Disposal (PPAD) Act, 2015 which requires each member of the tender opening committee and evaluation committee to initial each page of the tender opening minutes and evaluation reports respectively to acknowledge there are true reflection of the proceedings held. Further, the tender opening register was not maintained in contravention of Section 78 (6) of the Public Procurement and Asset Disposal Act, 2015 which states that as each tender is opened, the name of person submitting the tender and the total price shall be read out loud and recorded in a document to be called the tender opening register and that the tender opening committee did not record the number of pages received per every tender document as per the Law. In addition, some members appointed for tender opening did not sign each tender document contrary to Section 78 (9) of PPADA, 2015 which states that each member of the tender opening committee shall sign each tender on one or more pages as determined by the tender opening committee and, the signed contract agreement between Meru University of Science and Technology and the firm was not produced for audit verifications.

In the circumstances, the University was in breach of the law and the value for money for Kshs.18,308,299 in respect to library expenses could not be not confirmed.

2.0 Irregularities in the Procurement Process of Computer Software

Note 7(b) to the financial statement reflected Kshs.33,441,180 in respect to maintenance cost which included Kshs.4,750,280 in respect to computer software maintenance which further included Kshs.2,820,800 procured through quotation which was awarded to a firm on 31 July 2017. However, the procurement was irregularly done through request for quotation instead of open tender even though it exceeded Kshs.1,500,000 threshold for request for quotation and the quotations were opened and evaluated by two committee members in contravention of Section 46(4) (b) of the Public Procurement and Asset Disposal Act, 2015 which states that the committee should consist between three and five members. Further, the accounting officer did not appoint an adhoc evaluation committee contrary to Section 46 (1) of PPAD, 2015 which states that Accounting officer shall ensure that an adhoc evaluation committee is established from within the members of staff, with the relevant expertise and the notification of award to the winning bidder and letter of acceptance from the winning bidder were not produced for audit verifications.

In the circumstances, the University was in breach of law and the value for money for Kshs.2,820,800 in respect to computer software and maintenance could not be confirmed.

3.0 Management of Human Resources

3.1 Staff Performance Appraisal

A review of senior management and other staff member's files revealed that the University did not undertake staff appraisal in the financial year under review contrary to Section G (6) of Public Service Commission Human Resource Policies and Procedures Manual of 2016, which says the Staff Performance Appraisal System (SPAS) shall apply to all categories of staff in the Public Service.

In the circumstances, the University violated the policy on the staff management.

3.2 Ethnic Balance

The University staff establishment at the time of audit in November 2018 showed that one community was 63.03 % of the total employed staff contrary to Section 7 (1) (2) of the National Cohesion and Integration Act, 2008 (Revised 2012) which provides that no public establishment shall have more than one third of its staff from the same ethnic community.

In the circumstances, the University is in breach of the law.

3.3 Irregularities on Deduction of Wages

Note 7 (a) to the financial statements reflected Kshs.363,350,494 in respect to basic salary which included Kshs.4,241,800 in respect to net basic salary paid to staff whose computation of one- third (1/3) of their salary indicated that they should have been paid a net of Kshs.6,128,837 in the year under review resulting to an over deduction of Kshs.1,887,037 in respect to net basic salary deducted above two- third (2/3) contrary to Section 19(3)of the Employment Act 2007 which states that the total amount of deductions from the wages of an employee shall not exceed one third (1/3) of such wages.

In the circumstances, the University acted contrary to the law.

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, 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 has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

1 Information, Communication and Technology (ICT) Environment

Review of the University's ICT environment revealed that there was no formal approved ICT policy in place as at 30 June 2018 which ought to have included data security policy and disaster recovery plans. Further, the ICT organization structure was not provided for audit review.

In the circumstances, the integrity, security and reliability of the University's financial data including its Management Information System could not be ascertained as at 30 June 2018.

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.

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 Public Sector Accounting Standards (Accrual Basis) 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 University's ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the University's 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.

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 money is applied in an effective way.

Those charged with governance are responsible for overseeing the University's 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 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 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 University's 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 University'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 University to cease as a going concern or 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 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

8 February 2019