

REPORT OF THE AUDITOR-GENERAL ON MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY FOR THE YEAR ENDED 30 JUNE, 2019

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 32, which comprise the statement of financial position as at 30 June, 2019, and the statement 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, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accruals Basis) and comply with the Public Finance Management Act, 2012 and the Universities Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in the Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects a revenue budget of Kshs.1,035,485,977 and an expenditure budget of Kshs.1,163,581,653. However, the University's budget approved by The National Treasury and provided for audit review reflected a revenue budget of Kshs.1,094,372,000 and an expenditure budget of Kshs.1,089,227,000 resulting into an unexplained and unreconciled variance of Kshs.58,866,023 and Kshs.74,354,653 respectively.

In the circumstances, the accuracy of the budgeted revenue and expenditure balances reflected in the statement of comparison of budget and actual amounts could not be confirmed.

2.0 Biological Assets

The statement of financial position reflects an amount of Kshs.807,077 in respect to biological assets. However, supporting documents including the register showing weight and vaccinations history, progress on health of the animals, date of acquisition and disposal was not provided for audit review. Further, relevant disclosures relating to the

biological assets as required under paragraph 38 to 51, of International Public Sector Accounting Standards No.27 were not made in the financial statements.

In the circumstances, the accuracy of the biological assets balance of Kshs.807,077 and adherence to the disclosure requirements could not be ascertained.

3.0 Stock Variance

The statement of financial performance reflects operational expenses of Kshs.1,057,296,266 which as reflected under Note 7(d) to the financial statements includes Kshs.154,146,244 in respect to other operational expenses of which Kshs.276,241 related to stock variance. However, supporting documents, reason for the variance and action taken by Management were not provided for audit review.

In the circumstance, the accuracy and validity of the stock variance of Kshs.276,241 could not be confirmed.

4.0 Inventory

The statement of financial position reflects an inventory balance of Kshs.8,762,076 as at 30 June, 2019. However, the inventory valuation report as at 30 June, 2019 reflected Kshs.819,431 in respect to twenty-three (23) sampled items of inventory while the inventory report from Microsoft Dynamics Navision system used to record inventory reflected a negative balance of Kshs.7,810,170 for the same items resulting into an unexplained and unreconciled variance of Kshs.8,629,601.

In addition, the reported inventories balance of Kshs.8,762,076 includes Kshs.2,494,088 and Kshs.401,103 in respect to central store and kitchen store respectively, both totalling to Kshs.2,895,191. Included in the balance of Kshs.2,895,191 is an amount of Kshs.1,845,817 in respect to eighty-six (86) items of inventory. However, recalculation of the value of the eighty-six (86) items using First In First Out (FIFO) method of inventory valuation adopted by the University, resulted in a value of Kshs.1,773,996 resulting into an unexplained and unreconciled variance of Kshs.71,821.

In the circumstances, the completeness and accuracy of the reported inventory balance of Kshs.8,762,076 could not be confirmed.

5.0 Council Allowances

The statement of financial performance reflects operational expenses of Kshs.1,057,296,266 which, as disclosed in Note 7(c) to the financial statements, includes Kshs.14,002,537 in respect to Council expenses, which further includes an amount of Kshs.5,440,000 in respect to Council sitting allowances. However, analysis of attendance registers and activities of the Board revealed that a total of Kshs.5,240,000 was spent in respect to sitting allowances during the year under review resulting into unexplained or unreconciled variance of Kshs.200,000.

In the circumstances, the accuracy of the reported Kshs.5,440,000 in respect to Council sitting allowances could not be confirmed.

6.0 Receivables from Exchange Transactions

The statement of financial position reflects Kshs.68,794,763 in respect to receivables from exchange transactions which, as disclosed under Note 13 to the financial statements, includes Kshs.67,909,517 relating to students' debtors. However, the student debtors increased by Kshs.11,194,593 or 20% from the Kshs.56,714,924 reported in the prior year. Management did not make any provisions for bad and doubtful debts against the balance and no evidence of measures instituted to ensure recovery of the amounts was provided for audit.

In the circumstances, the recoverability of the student's receivables balance of Kshs.67,909,517 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Meru University of Science and Technology Management in accordance with ISSAI 130 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 Matter

Financial Performance

The statement of financial performance reflects a deficit of Kshs.127,458,588 (2018: Kshs.126,648,028). Further, the deficit decreased the negative balance of the reserve fund to Kshs.317,758,163 (2018: Kshs.190,299,575). If measures are not put in place to reverse the loss-making trend, the University is likely to face financial challenges in the near future hence lose its ability to sustain services.

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. I have determined that there are no key audit matters 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 Property, Plant and Equipment

1.1 Use of Wrong Procurement Method

During the year under review, machinery and equipment costing a total of Kshs.2,938,080 were procured using request for quotations contrary to the requirements of the First Schedule to the Public Procurement and Disposal (Amendment) Regulations, 2013 which stipulates that the maximum level of expenditure for request for quotations method is Kshs.1,500,000 for goods.

In the circumstance the University was in breach of the law and as a result, it has not been possible to ascertain that value for money was obtained in the expenditure of Kshs.2,938,030.

1.2 Failure to Adhere to Procurement Procedures

Included in the expenditure balances of Kshs.20,685,765 and Kshs.267,417,183 in respect to computers, and machinery and equipment is Kshs.2,257,740 and Kshs.3,763,680 totalling Kshs.6,021,420 relating to computers and machinery and equipment procured during the year under review. However, the respective quotations included the name and model of the computers and equipment to be supplied contrary to Section 60(4) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that technical requirements should not refer to a particular trademark, name, patent, design, type, producer or service provider or to a specific origin.

Further, envelopes used in submission of the quotations showing the quotation number and signed by the tender opening committee members were not provided for audit review contrary to Section 77(1), (2) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that tender documents submitted shall be sealed in an envelope which shall bear the tender number assigned and be signed on one or more pages by each member of the tender opening committee.

In the circumstances, the University was in breach of the Law.

2.0 Prepayments

As disclosed in Note 12 to the financial statements, the statement of financial position reflects a balance of Kshs.25,038,609 in respect to prepayments which increased by Kshs.18,182,655 or 265% from the Kshs.6,855,954 reported in the prior year. The prepayments balance included other prepaid expenses of Kshs.1,260,694. This is contrary to Section 83 of the Public Finance Management (National Government) Regulations, 2015 which requires that sound cash management includes avoiding prepayments for goods or services unless required by the contractual arrangements.

3.0 Irregular Procurement of Goods and Services

The statement of financial performance reflects operational expenses of Kshs.1,057,296,266 which, as disclosed in Note 7(d) to the financial statements includes Kshs.154,146,244 in respect to other operational expenses. The latter balance includes

an amount of Kshs.13,751,055 in respect to advertising and publicity which further includes Kshs.955,900 paid to local media houses for advertising various intakes for the University. However, it was not possible to ascertain whether the service provider was competitively sourced as required under Section 106 (2)(b) of the Public Procurement and Asset Disposal Act, 2015 since quotations, Evaluation Committee minutes and Local Service Order (LSO) were not provided for audit review.

In the circumstance, it was not possible to ascertain that the University got value for money from the expenditure of Kshs.955,900.

4.0 Wasteful Expenditure

Included in other operational expenses of Kshs.154,146,244 is an amount of Kshs.3,641,834 in respect of conferences and seminars. The latter balance includes Kshs.495,000, Kshs.80,000 and Kshs.72,000 all totalling to Kshs.647,000 in respect to payments to a hotel in Nanyuki for conference facilities, retreat allowance to sixteen (16) members of the Strategic Committee and another hotel in Nanyuki for a retreat of Deans and Directors to strategize for financial year 2019/2020. However, no explanation was provided as to why the meetings were held outside the University Headquarters contrary to Section 7 of The National Treasury Circular No. 20 of 2015 which requires Accounting Officers to ensure that all workshops and retreats with majority of participants drawn from one duty station are held within the precincts of the duty station.

In the circumstances, the propriety and value for money on the expenditure amounting to Kshs.647,000 could not be ascertained.

5.0 Insurance

The other operational expenses of Kshs.154,146,244 also includes Kshs.19,235,391 in respect to insurance which further includes an amount of Kshs.80,113 in respect to motor vehicle insurance for KCK 640U. However, the valuation report showing how the insurance premiums of Kshs.80,113 charged was arrived at including the Insurance Policy showing terms and conditions of the cover were not provided for audit review. In addition, quotations, Evaluation Committee minutes and Local Service Order (LSO) were also not provided for audit.

In the circumstances, the propriety and value for money on the expenditure amounting to Kshs.80,113 could not be ascertained.

6.0 Regional Balancing

As at 30 June, 2019, the University had three hundred and eighty-three (383) employees out of which two hundred and sixty-four (264) or 69% were from the same ethnic community contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which requires all public offices to seek to represent the diversity of the people of Kenya in employment of staff and that no public establishment, should have more than one third of its staff from the same ethnic community.

In the circumstance, the University was in breach of the Law.

7.0 Delayed Completion of Engineering Tuition Block

The statement of financial position reflects a balance of Kshs.2,027,828,983 in respect to property, plant and equipment. As reported in the prior year, an amount of Kshs.474,896,783 was spent on construction of an Engineering Tuition Block as at 30 June, 2017. Two addendums dated 28 January, 2015 and 1 September, 2019 extended the construction contract period from 2013 to 2020 and payments totalling Kshs.136,738,893 for fourteen (14) interim payment certificates and seven (7) payments to consultants were made. In addition, the original bills of quantities for the construction of the Engineering Tuition Block B were revised by Kshs.49,097,971 or 29% from Kshs.171,446,091 to Kshs.220,544,062 contrary to Section 139(4)(c) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that quantity of works varied shall not exceed twenty per cent (20%) of the original contract quantity.

Further, no evidence was provided that the contract variation was reported to the Public Procurement Regulatory Authority contrary to Section 139(5) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that an Accounting Officer of a procuring entity shall submit a quarterly report of the varied or amended procurement contracts to the Authority. Physical verification carried out in October, 2019 revealed that the engineering tuition block was divided into three (3) blocks: Block A was complete and in use, Block B was substantially complete and in use while the construction of Block C was still in progress.

In the circumstances, the propriety and value for money on the expenditure on the project could not be ascertained.

8.0 Progress on Follow up of Auditor Recommendations

Contrary to the Public Sector Accounting Standards Board (PSASB) financial reporting template for regulatory and other non-commercial government owned entities issued in June 2019, six (6) issues contained in the report of the Auditor General for the financial year 2017/2018 were not included in the progress on follow up of auditor recommendations. The PSASB template requires an entity to include progress on follow up of auditor recommendations including action taken on all issues raised in the audit report.

In the circumstances, the presentation of the University's financial statements was not in compliance with the PSASB template.

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 OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, 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.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 overall 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 the University Council

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, 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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of intention to terminate the University or to cease operations.

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 University's 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 resources are 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 with limited assurance as to 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 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 noncompliance. 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 Meru University of Science and Technology'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 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 Meru University of Science and Technology 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

06 July, 2021