

REPORT OF THE AUDITOR-GENERAL ON MOI UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Moi University set out on pages 1 to 42 which comprise the consolidated statement of financial position as at 30 June 2017, and the consolidated statement of financial performance, consolidated statement of changes in net assets and consolidated 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 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 Moi University 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 do comply with Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing else 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 Work In Progress

1.1 Construction of Main Gate

The property, plant and equipment balance of Kshs.6,047,132,000 as at 30 June 2017 reflects work in progress figure of Kshs.1,795,306,000 which in turn includes construction of main gate expenditure amounting to Kshs.4,818,280. According to the contract agreement, the contract was to commence on 23 January 2017 and take 16 weeks to completion. A physical verification of the project revealed that the project is incomplete and the contractor has abandoned the project after being paid the full contract sum.

Available information indicate that the project is only 60% complete. The management explained that there were omissions in the bill of quantities and the structural drawings.

According to the report of the County Works Officer, the gross valuation of the works is Kshs.7,778,990 out of which an amount of Kshs.4,818,280 has already been paid being the full contract sum while the anticipated cost of the project is Kshs.9,267,188. No justification was provided for this big variation in the cost of the project which is likely to cost much more than original contract price.

Under the circumstances, the validity and propriety of the expenditure of Kshs.4, 818,280 incurred on the construction of the gate as at 30 June 2017 could not be confirmed and the University has not obtained value for this expenditure as the university is yet to derive benefits from the project.

1.2 Construction of Bomet Campus

Included also in work in progress figure of Kshs.1,795,306,000 is construction of library and hostel at Bomet Campus expenditure of Kshs.53,282,005. The contract was awarded to a construction company for construction of a library block, kitchen and dining hall block, academic block (Tuition block) and 2 number hostel blocks at a contract sum of Kshs1, 391,982,469. The contract was to commence on 8 November 2016, for a period of 104 weeks and completion date 7 November, 2018. A physical verification of the project during the month of March 2018 revealed that the project is behind schedule and is not likely to be completed within the contract period. The academic block was under construction but roofing, windows, doors and plastering had not been started.

It was further observed that only excavation works had been done for the library and dining. The management explained that the contractor relocated to the new site following a geothermal site investigation that was done by the Materials Testing and Research Division of the Ministry of Transport, Infrastructure, Housing and Urban Development which found the rock samples in the first site to be weak and therefore unsuitable for constructing the buildings hence the cause for the delay. However, no explanation was provided as to why the geotechnical site investigation had to be done after the start of the project instead of being done before construction started.

Under the circumstances, the project may not be completed as per contract agreement and there is the risk of price variation and cost escalation due to the delay on the completion of the project in time.

3.0 Receivables from Exchange Transactions

3.1 Un-Surrendered Imprest

The consolidated statement of financial position reflects receivables from exchange transactions balance of Kshs.1,060,159,000 which includes other debtors balance of Kshs.39,108,000 out of which, an amount of Kshs.25,476,385 relates to temporary imprests which were due on or before 30 June 2017. However, no reason has been provided by management for failure to account or recover the outstanding imprest from the defaulting officers.

Consequently, the management breached Government regulations governing management of imprests and therefore the propriety of the imprests amounting to Kshs. 25,476,385 could not be confirmed.

3.2 Other PSSP Debtors

As reported in the previous year, included also in receivables from exchange transactions balance of Kshs1, 060,159,000 under Note 16 to the financial statements is

other PSSP debtor balance of Kshs.800,000 which has been outstanding for more than two years and whose supporting documents were not provided for audit verification. Under the circumstances, the accuracy, completeness and existence of other PSSP debtors of Kshs.800,000 could not be confirmed.

4.0 GOK Loan

The consolidated statement of financial position as at 30 June 2017 reflects GoK loan figure of Kshs. 231,250,000 relating to outstanding GOK loan advanced to the University to facilitate the acquisition of its Karatina Campus. The Karatina Campus was gazetted as a constituent college of Moi University on 1 October 2010. According to the order establishing the college, all rights, liabilities and assets held by anybody on behalf of the college shall automatically and fully be transferred to the college. However, the loan has not been transferred to Karatina University as per the order and it remains unserviced since the date of gazettelement of Karatina Campus. Although Moi University has written to the Government seeking consent to assign the loan to Karatina University no evidence was provided to show that the consent was given. Under the circumstances, the justification of the continued retention of the loan in the books of Moi University and when repayment would resume or who would be liable for the interest/penalties accrued during the period when the loan was not being repaid could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Moi University 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 Officers in Acting Capacity

An audit of the payroll revealed that payment of acting allowances amounting to Kshs..605,499 was paid to staff in acting capacity who have been acting for over six months without being confirmed to the posts contrary to government regulations.

Consequently, the management breached the law on officers in acting capacity and the propriety of acting allowances of Kshs.605,499 could not be confirmed.

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 Moi University's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends 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.

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 of Kenya. 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 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.

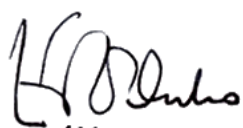
As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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, 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 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 consolidated/ 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 Moi University to cease to continue offering 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 of the entities or business activities 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

15 August 2018