

# **REPORT OF THE AUDITOR-GENERAL ON MOI UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying consolidated financial statements of Moi University set out on pages 32 to 70, which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of financial performance, consolidated statement of changes in net assets, consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Moi University 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 the Universities Act, 2012.

### **Basis for Qualified Opinion**

#### **1.0 Inaccuracies in the Financial Statements**

##### **1.1 Changes in Net Assets**

The consolidated statement of changes in net assets for the year ended 30 June 2018 reflects total deficit for the year of Kshs.613,850,000 which is at variance with the consolidated statement of financial performance figure of Kshs.731,812,000 resulting in a variance of Kshs.117,962,000 which has not been reconciled. Further, the consolidated statement of changes in net assets reflects net assets figure of Kshs.6,632,292,000 as at 30 June 2018 whereas the consolidated statement of financial position reflects Kshs.6,514,330 resulting in a variance of Kshs.117,962,000 which has also not been explained or reconciled.

Consequently, the accuracy of the consolidated statement of changes in net assets deficit figure of Kshs.613,850,000 and closing balance of Kshs.6,632,292,000 could not be confirmed.

##### **1.2 Statement of Cash Flows**

The consolidated statement of cash flow reflects purchase of property, plant and equipment figure of Kshs. 695,876,000 which however vary from note 26 balance of Kshs. 695,696,000 resulting in a variance of Kshs. 180,000 which has not been reconciled or explained.

Consequently, the accuracy of the consolidated cash flows statement as at 30 June 2018 could not be confirmed.

### **1.3 Statement of Comparison of Budget and Actual Amounts**

The statement of comparison of budget and actual amounts reflects actual capital receipts on comparable basis figure of Kshs.381,500,000. However, the total actual capital receipts after casting reflects Kshs.482,341,575 resulting into an unexplained variance of Kshs.100,841,575. Further, the capital expenditure on comparable basis indicates a figure of Kshs.636,524,558 resulting in an unexplained over expenditure of Kshs.255,024,558. The source of funding for this expenditure has not been explained nor included in the approved budget for 2017/2018.

Consequently, the accuracy and completeness of the statement of comparison of capital budget and actual amounts for the year ended 30 June 2018 could not be ascertained.

### **2.0 Other PSSP Debtors**

As reported in the previous year, included in receivables from exchange transaction balance of Kshs.1,003,509,000 under note 22 to the financial statements is other PSSP Debtor balance of Kshs 800,000 which has been outstanding for more than three 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.

### **3.0 Current and Non-Current Liabilities**

#### **3.1 Unremitted Employee Benefit Obligations**

Included in the total trade and other payables from exchange transactions balance of Kshs.2,944,284,000 is pension fund contribution of Kshs.475,733,877 and provident fund contribution of Kshs.10,623,871 all totaling to Kshs.486,357,748 which had not been remitted to the respective pension managers and Trustees contrary to the Retirement Benefits Act, No.3 of 1997 which requires employers to remit pension deductions to the respective scheme within 15 days of making the deduction. Part VII section 53(A)(I) of the Act requires an employer with agreement of the employee to make deductions from employee's emoluments for remittance to the scheme and in case of failure to remit the deductions within 15 days, the scheme may institute proceedings against the employer after a 7 days' notice. However, available information revealed that the unremitted pension fund contribution amounted to Kshs.923,601,847 and the provident fund contribution stood at Kshs.149,922,468 all totaling to Kshs.1,073,524,315 instead of the total balance Kshs.486,357,748 reported in the statement of financial position. Had this amount been incorporated in the financial statement, the current liabilities would have been

Kshs.3,555,331,567 against total current assets figure of Kshs.3,086,916,000 resulting in a negative working capital of Kshs.468,415,567, a clear indication that the university is technically insolvent. The University's current liabilities has therefore been understated by Kshs.587,166,567 not disclosed in the financial statements.

Under the circumstances, the University is in breach of the Retirement Benefits Act, of 1997 and the validity, accuracy and completeness of the trade and other payables from exchange transactions balance of Kshs.2,944,284,000 as at 30 June 2018 could not be confirmed.

#### **4.0 Unserviced Long Term Government of Kenya Loan**

As reported in the previous year, the consolidated statement of financial position as at the 30 June 2018 reflects Government of Kenya (GOK) Loan balance of Kshs.231,250,000 relating to outstanding GOK loan advanced to the University to facilitate the acquisition of its Karatina Campus. The Campus was gazetted as a constituent college of Moi University through Legal Notice no.163 of 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.

In view of the foregoing, the justification of the continued retention of the loan in the books of Moi University, its repayment and liability for interest/penalties accruing due to non-repayment of the loan could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of 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 matter(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

#### **REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY**

#### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed,

except for the matter(s) described in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ Qualified Opinion] 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 Construction of Main Gate**

As reported in the previous year, the property, plant and equipment balance of Kshs.6,621,457,000 as at 30 June 2018 reflects work in progress figure of Kshs.2,019,750,000 which in turn includes expenditure on the construction of main gate 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 2018 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.

### **2.0 Engagement of Casual Employees**

The consolidated statement of financial performance for the year ended 30 June 2018 reflects academic departments expenses figure of Kshs.4,151,672,000 which includes total personal emoluments figure of Kshs.2,367,332,000 as disclosed under note 13 to the financial statements. Further, out of the total personal emoluments figure of Kshs.2,367,332,000 an amount of Kshs.138,803,935 was incurred on the payment of wages for eight hundred and two (802) casual employees in various departments during the financial year 2017/2018 who had worked continuously for a period of 12 months from July 2017 to June 2018 contrary to the University Human Resource Policy Manual Paragraph 2.3.4 which states that Casual employment may be offered to employees to perform defined tasks on a day to day basis and their remuneration shall be on a piece rate basis in accordance with the minimum wage guidelines set by the government. Such appointments may be for a specified period of time provided that it does not exceed three months. Further, the casuals have been performing tasks that are permanent in nature and not short term tasks.

Consequently, the university is in breach of the University Human Resource Policy.

### **3.0 Officers in Acting Capacity**

As reported in the previous year, an audit of the payroll revealed that payment of acting allowances amounting to Kshs.707,904 was paid to staff in acting capacity who have been acting for over one year 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.707,904 could not be confirmed.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS**

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.

In preparing the financial statements, management is responsible for assessing the ability to continue to sustain services, disclosing, as applicable, matters related to sustain services and using the applicable basis of accounting unless the management either intends to liquidate the Moi 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 manner.

Those charged with governance are responsible for overseeing the Moi 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 review 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 Moi 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 Moi 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 Moi University to cease to continue as a going concern or 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 Moi 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**

**21 January 2019**