

# REPORT OF THE AUDITOR-GENERAL ON MURANG'A UNIVERSITY OF TECHNOLOGY FOR THE YEAR ENDED 30 JUNE, 2019

---

## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of Murang'a University of Technology set out on pages 1 to 33, which comprise the statement of financial position as at 30 June, 2019, 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 Murang'a University of Technology as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance International Public Sector Accounting Standards (Accrual Basis) and comply with the Universities Act, 2012 and the Public Finance Management Act, 2012.

### Basis for Qualified Opinion

#### 1. Long Term Investments

The statement of financial position reflects a balance of Kshs.25,318,800 under long term investments which, as disclosed in Note 27 to the financial statements, is in respect of 126,594 shares held in Bamburi Cement. As previously reported in 2017/2018, the shares were registered in the names of the trustees of the technical college at inception. Although the Management indicated that the process of registering the shares in the name of the University had commenced, the process had not been completed as at the time of the audit in November, 2019.

In the circumstances, the accuracy and existence of the shares investment balance of Kshs.25,318,800 as at 30 June, 2019 could not be confirmed.

#### 2. Payables from Exchange Transactions

As disclosed in Note 28 to the financial statements, the statement of financial position reflects a balance of Kshs.191,667,310 under payables from exchange transactions. The balance includes long outstanding payables of Kshs.418,466 and Kshs.6,916,100 in respect of wages payables and gratuity payables to former Board of Governors (BOG) employees, payables of Kshs.1,123,526 for JKUAT and student caution money of Kshs.271,622. No explanation was provided for the delay in paying these long outstanding amounts. Further no detailed analysis or breakdown of these balances was provided for audit review.

Consequently, the accuracy of payables from exchange transactions balance of Kshs.191,667,310 as at 30 June, 2019 could not be confirmed.

### **3. Property Plant and Equipment- Freehold Land**

The statement of financial position reflects a balance of Kshs.1,450,028,624 under property, plant and equipment which, as disclosed in Note 25 to the financial statements, includes an amount of Kshs.650,000,000 relating to freehold land. However, records presented for audit revealed that the University's land, measuring approximately 30.95 hectares, has been encroached by a private developer who had laid claim against a portion of the land. Although the University Management indicated that it had initiated the repossession process, the matter had not been resolved as at the time of audit in November, 2019.

In the circumstances, the accuracy of the freehold land balance of Kshs.650,000,000 as at 30 June, 2019 could not be ascertained.

### **4. Receivables from Exchange Transactions**

#### **4.1 Students Debtors**

The statement of financial position reflects a balance of Kshs.24,927,555 under receivables from exchange transactions which, as disclosed in Note 22 to the financial statements, is net of a provision for doubtful debts of Kshs.1,311,977 out of which an amount of Kshs.17,801,918 relates to gross students debtors. However, as previously reported, an amount of Kshs.9,854,342 included in the gross students' debtors balance has been outstanding for long. Further, no effort appears to have been made by the Management to recover these debts.

#### **4.2 Long Outstanding Receivables**

Included in the receivables balance of Kshs.24,927,555 are long outstanding receivables amounting to Kshs.4,504,322 in form of house rent debtors of Kshs.107,542, University pension scheme receivables of Kshs.2,138,981 and other debtors balance of Kshs.2,197,999. As previously reported, some of these debtors date back to 2003 including dues owed by various tea factories and Government Ministries. It was not clear why these debts have taken long to be collected and no documentary evidence was provided for audit review on measures being taken to recover the debts.

Under the circumstances, the accuracy and recoverability of the receivables from exchange transactions net balance of Kshs.24,927,555 as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Murang'a University of 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.

### **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. There were no key audit matters to report in the year under review.

# 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. Work in Progress - Delay in Implementation of Projects

The statement of financial position reflects a balance of Kshs.226,091,282 under work-in-progress which, as disclosed in Note 26 to the financial statements, related to construction of a hostel block Phase 1 Wing 2, a science complex, road works, perimeter wall and ERP software. A review of records revealed that although the projects were initiated in the financial year 2016/2017 with expected completion date of April, 2018, the projects had taken too long to complete and the contract period had lapsed, as analyzed below:

S.No	Project	Contract Amount (Kshs.)	Contract Date	Expected Completion Date
1.	ERP Software	25,520,000	1 September, 2016	30 March, 2018
2.	Hostel Block Phase 1, Wing 2	154,959,824	18 November, 2016	16 April, 2018
3.	Hostel block-Phase 3	199,103,623	19 December, 2016	19 June ,2017
4.	Perimeter Wall	60,600,232	23 November, 2016	15 October, 2017
	<b>Total</b>	<b>440,183,679</b>		

The University attributes the delay to slow disbursement of funding by The National Government, while the construction of perimeter fence had stalled due to a court case on encroachment of the University land by a private developer. The Management, however, has not given evidence of steps being taken to complete the projects.

### 2. Non-Compliance with Ethnic Diversity

During the year under review, the University had a total of 209 staff in its establishment, However, 159 or 76% of the employees were from one dominant ethnic community contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008 which states no public establishment shall have more than one third of its staff from the same ethnic community.

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 governance were not effective.

### **Basis for Conclusion**

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 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 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 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 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 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 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 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 sustaining 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 Murang'a University of 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**

**19 August, 2021**