

REPORT OF THE AUDITOR-GENERAL ON THE TECHNICAL UNIVERSITY OF KENYA FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of The Technical University of Kenya set out on pages 1 to 15, which comprise the statement of financial position as at 30 June, 2019 and the statement of financial performance, statement of cash flows, statement of changes in accumulated funds, 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 The Technical University of Kenya 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 (Accrual Basis) and comply with the Universities Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Going Concern Uncertainty

The University recorded a deficit of Kshs.685,657,193 (2018: Kshs.835,034,947) thereby reducing revenue reserves from negative Kshs. 2,410,709,305 as at 30 June, 2018 to negative Kshs.3,096,366,498 as at 30 June, 2019. Further, the current liabilities of Kshs.3,651,682,442 exceeded the current assets of Kshs.985,267,111 resulting to a negative working capital of Kshs.2,666,415,331.

The University was therefore unable to meet its financial obligations as and when they fell due. In particular, the University was unable to remit other payroll deductions, insurance premium deductions, bank loan deductions, SACCO deductions and other statutory obligations of Kshs.171,542,521, Kshs.6,023,111, Kshs.24,155,338, Kshs.68,539,255 and Kshs.1,319,419,039 respectively all totalling to Kshs.1,589,679,264. The University also failed to pay audit fees totaling Kshs.5,868,000 for six (6) financial years from 2012/2013 to 2017/2018.

The University's financial statements have therefore been prepared on a going concern basis on the assumption of continued financial support from the National Government, bankers and creditors.

2. Unsupported and Long Outstanding Receivables

As disclosed in Note 10 to the financial statements, the statement of financial position reflects a balance of Kshs.905,080,493 under trade and other receivables. However, the balance included Kshs.104,350, Kshs.500,000 and Kshs.562,501 being deposits to

suppliers, Nyayo Vehicle Project and dishonored cheques respectively which have been outstanding for a long period of time and whose supporting analysis ledgers and documents were not provided for audit review.

In the circumstances, recoverability of the long outstanding trade and other receivables of Kshs.1,166,851 is in doubt.

3. Land Without Ownership Documents and Capitalized Expenditure

As previously reported, the property plant and equipment balance of Kshs.5,583,865,251 includes four (4) parcels of land owned by the University with an estimated total value of Kshs.3,068,000,000 and which were registered in the name of the defunct Kenya Polytechnic. Further, and as similarly reported in 2017/2018, the work-in-progress balance of Kshs.1,069,095,555 includes an expenditure of Kshs.1,542,800 in respect of consultancy services on Human Immunodeficiency Virus (HIV) which was capitalized contrary to Paragraph 13 of International Public Sector Accounting Standards No.17-Property, Plant and Equipment which defines property, plant and equipment as tangible assets held for use in the production or supply of goods or services.

In the circumstances, it has not been possible to confirm the accuracy, completeness and ownership status of the property, plant and equipment balance of Kshs.5,583,865,251.

4. Unsupported Trade and Other Payables

As previously reported, included in the trade and other payables balance of Kshs.3,651,682,442 as at 30 June, 2019, are payables totalling Kshs.346,758,826 as listed below whose supporting documents were not provided for audit review:

Description	Amount (Kshs.)
Contractors and General Creditors	134,189,361
Provision for NCC - Land Rates	3,221,572
UON Salary Reimbursement	16,818,189
Third Party Funds	191,450,619
Insurance Premium Documents	1,079,085
Total	346,758,826

In the circumstances, the accuracy and completeness of trade and other payables amounting to Kshs.346,758,826 could not be confirmed.

5. Unsupported Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.71,961,537 which, as disclosed in Note 9(a) to the financial statements, includes amounts of Kshs.729,614, Kshs.105,738, Kshs.300,000 and Kshs.534,648 held in Students' Deposit Savings, Needy Students, Fixed Deposit and Hostel Fund bank accounts respectively. However, and as previously reported, cashbooks and bank reconciliation statements for the accounts were not provided for audit verification.

Under the circumstances, the accuracy, existence and completeness of the cash and cash equivalents balance of Kshs.71,961,537 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of The Technical University of Kenya 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. I have determined that there are no key audit matters to communicate in my report.

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,865,247,311 and Kshs.2,748,258,095 respectively, resulting to an under-funding of Kshs.116,989,216 or 4% of the budget. Similarly, the University incurred a total expenditure of Kshs.3,258,277,531 against a total budget of Kshs.3,067,995,702 resulting into an over-expenditure of Kshs.190,281,830 or 6% of the budget. The University exceeded its budgetary allocation for almost all the expenditure items.

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

Non-Compliance with Reporting Template

Progress on follow up of audit matters reported in the prior year were not provided in the financial statements contrary to the reporting guidelines issued by the Public Sector Accounting Standards Board (PSASB).

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.

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 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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless 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 continue as a going concern. 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 as a going concern.
- 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

19 July, 2021