

REPORT OF THE AUDITOR-GENERAL ON THE EGERTON UNIVERSITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Egerton University set out on pages 40 to 44 which comprise the statement of financial position as at 30 June 2018, 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 discussed in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of Egerton University as at June 30, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and complies with the University Act No.42 of 2012 and Public Financial Management Act 2012

Basis for Qualified Opinion

1. Expenditure

1.1 Unsupported Expenditure on Teaching Claims

The statement of financial performance reports a total expenditure of Kshs.6,145,535,800 which includes academic department expenditure of Kshs.476,403,836 as disclosed in note 18 to the statements. Included in Kshs.476,403,836 are teaching claims of Kshs.373,153,785 which are not supported by a schedule of individual lecturers or relevant accounting documentation and as such it was not possible to confirm the accuracy and completeness of the expenditure.

1.2 Unexplained Research and Extension Payments

The statement of financial performance reports a total expenditure of Kshs.6,145,535,800 which includes research and extension expenditures of Kshs.269,589,094 as disclosed in note 19 to the statements which however, differs with actual total payments of Kshs.347,960,172 reflected in bank statements for all projects during the year resulting to a difference of Kshs.78,371,072 which has not been explained or reconciled. Therefore, the accuracy and completeness of the expenditure of Kshs.347,960,172 could not be ascertained.

1.3 Unrealized Gain on Foreign Exchange Transactions

The statement of financial performance reports net income from other gains and losses of Kshs.6,768,605 which includes foreign exchange gain of Kshs.15,007,800 as disclosed in note 24 to the financial statements that is not supported by actual realized gains or ledger records showing how the gains were arrived at. Therefore, the accuracy and completeness of net income from other gains or losses of Kshs.6,768,605 could not be confirmed.

2. Current Assets

2.1 Student Debtors Not Supported by Aging Student List

The statement of financial position reports receivables from exchange transactions of Kshs.930,028,201 which includes student debtors of Kshs.822,162,931 that are not supported by data on opening balances, billings for the period, payments received and closing balances. In addition, they have been classified as current assets while management has not demonstrated how the outstanding balances will be recovered in full in the next twelve months.

It was therefore not possible to confirm the accuracy and completeness of receivables from exchange transactions amount of Kshs.930,028,201

2.2 Agricultural Assets

The statement of financial position reports agricultural assets of Kshs.28,093,375 which decreased from a comparative amount of Kshs.35,540,747 previously reported resulting to a loss of Kshs.7,447,372 that has not been supported by a reconciliation of changes in the carrying amount of biological assets at the beginning and the end of the financial period in accordance with IPSAS 27 on Agriculture disclosure requirements.

3. Current Liabilities

3.1 Long Overdue Un-presented Cheques

The statement of financial position reports current liabilities of Kshs.3,122,196,450 which includes negative cash balances of Kshs.(599,749,161) as at 30 June 2018 representing cheques written for payment of trade creditors and other payables that have been recorded in the cash book but are still held in the university cash office without any reasonable justification. The act of withholding the cheques has the overall effect of misstating the cash and cash equivalent and outstanding creditor's balances at the close of the year thereby manipulating the financial records.

In addition, the negative cash balances are not supported by corresponding cash outflows from the university or bank overdraft amounts from commercial banks and therefore its accuracy, completeness and existence could not be confirmed.

3.2 Misstatement of Trade Creditors Balance

The statement of financial position as at 30 June 2018 reflects trade and other payables of Kshs.1,482,277,741 under current liabilities which includes trade creditors of

Kshs.317,166,362 as disclosed in note 31(a) to the statements that are not in agreement with the creditors aged analysis balance of Kshs.351,490,345.51 by a difference of Kshs.34,323,983.51 which has not been reconciled or explained. Therefore, the completeness and accuracy of the trade and other payables amount could not be confirmed.

3.3 Misstatement of Provisions and Accruals

The statement of financial position as at 30 June 2018 reports provisions and accruals balance of Kshs.617,084,711 which differs with the summary of accrual schedule provided of Kshs.953,125,240 resulting to a difference of Kshs.336,040,529 which has not been explained or reconciled. Therefore, the accuracy, completeness and validity of the provisions and accruals amount of Kshs.617,084,711 could not be confirmed.

3.4 Deferred Income Not Supported by Budget Performance or Cash Flow Statement

The statement of financial position as at 30 June 2018 reports deferred income of Kshs.423,084,837 under current liabilities, representing the unused cash balances for research and extension and donor funded projects which differs with the total closing bank certificate balances of Kshs.447,336,572.79 in respect of all projects on a comparable basis resulting to a difference of Kshs.24,251,735.79 that has not been explained or reconciled.

In addition, the deferred income balance of Kshs.423,084,837 are not supported by budget performance or cash inflows statement showing how the amount was arrived at and therefore its completeness and accuracy could not be confirmed.

3.5 Non-Disclosure of Unremitted Statutory and Voluntary Payroll Deductions in the Financial Statements

The statement of financial position reports current liabilities totaling Kshs.3,122,196,450 as at 30 June 2018 that excludes outstanding statutory deductions and voluntary employee contributions of Kshs.437,599,421 and no explanations were provided for the omission.

In addition, these amounts have been totally excluded from the books of account and therefore the basis upon which the financial statements are prepared are questionable since they do not comply with the requirements of International Public Sector Accounting Standards - Accrual Basis.

3.6 Non-Disclosure of Annual Leave Days Outstanding Balance

The University payroll records reflects an accumulated pending leave days valued at Kshs.200,153,894 as at 30th June 2018 relating to the year 2008 and prior years in respect of commuted staff leave days that have not been disclosed in the liabilities balance reported in the statement of financial position and therefore the completeness and accuracy of outstanding liabilities amount is consequently understated by the same amount.

4. Statement of Changes in Net Assets

4.1 Revenue Reserves Transferred Without Council Authorization

The statement of changes in equity and capital for the year ended 30 June 2018 reflects transfers of Kshs.191,027,449 from revenue reserves to deferred income without being supported by an analysis of revenue allocated to each project during the year and the relevant approvals by the University Council or National Treasury as the equity owner.

In addition, the transaction is not recorded in the university books of account or supported by verifiable accounting documentation and therefore the accuracy and propriety of Kshs.191,027,449 transferred from revenue reserves to equity could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Egerton 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.

Emphasis of Matter

1. Expenditure

1.1 Tegemeo Expenditure Not Processed Through Sage Accounting System

The statement of financial performance reports a total expenditure of Kshs.6,145,535,800 which includes Tegemeo Institute expenditure of Kshs.181,266,557 as at 30 June 2018 as disclosed in note 32 to the financial statements which were processed outside the university's approved financial information system in total breach of the Public Financial Management Act, 2012 provisions and reflected in the financial statements based on reports instead of official books of account.

As a result of failure by Tegemeo Institute to maintain proper books of account it was not possible to confirm the accuracy and completeness of the expenditure of Kshs.6,145,535,800 during the year under review.

2. Investments

2.1 Long Outstanding Egerton University Investment Company Limited Loan

The statement of financial position reports Investments of Kshs.150,477,691 which includes Kshs.149,918,907 loan advanced by Egerton University to Egerton University Investment Company Limited (EUICO) as disclosed in note 30 to the statements which has remained unpaid to date with no formal payment plan agreement. Therefore the full recoverability of this loan amount may be in doubt in the absence of a formal agreement being made.

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.

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. Non- Current Assets

1.1 Land Without Title Documents

The statement of financial position reports property, plant and equipment of Kshs.5,093,798,809 as at 30 June 2018 that includes various parcels of land valued at Kshs.965,594,800 owned by the university. However, included in Kshs.965,594,800 are parcels of land amounting to Kshs.520,624,800 which are not supported by title deeds.

Further, it was also noted that Mpeketoni land is not included in the list of parcels of land owned by the university and its valuation is totally omitted from the books of account or the asset register. Therefore, the ownership and valuation of property, plant and equipment valued at Kshs.5,093,798,809 could not be ascertained.

1.2 Work In Progress Not Supported.

The statements of financial position reports property, plant and equipment of Kshs.5,093,798,809 which includes works in progress amount of Kshs.1,700,634,419 as at 30 June 2018. Included in Kshs.1,700,634,419 are additions of Kshs.453,733,399 made during the year under review which are only supported by certificates of work done of Kshs.66,331,421 leaving a balance of Kshs.387,401,798 without being backed by any certificate of work done.

It was therefore not possible to confirm the propriety of the expenditure incurred on works in progress during the year and the accuracy and completeness of the balances reported in the financial statements.

2. Revenue from Non-Exchange Transactions

2.1 Recurrent Capitation Grant Not Supported by Student Population Data

The statement of financial performance reports revenue from non - exchange transactions of Kshs.3,736,618,077 as at 30 June 2018 which includes recurrent expenditure capitation grant of Kshs.3,182,186,700 that is not supported by information on the total number of government sponsored students, courses undertaken and amount allocated to each in every financial year.

In the absence of these records being maintained by the University, it is unclear on what basis its revenue and expenditure budgets are made as the dissemination of knowledge to students is the main core business and this may in the long run negatively affect the sustainability of its services due to lack of reliable information to bargain for enhanced capitation.

3. Non-Current Assets

3.1 Irregular Award of Modern Library Works Tender to Vaghjiyani Enterprises Ltd

The University through an Open Tender No, EU/ONT-33/2016-2107 dated 4th April 2016 invited bidders for the construction of proposed modern Library at Egerton University Njoro Campus. Fourteen bidders submitted their tenders for the works and the tender opened on 5th June 2017 whereupon all the 13 bidders were eliminated at the technical evaluation stage with an exception Vaghjiyani Enterprises Ltd who was responsive and subsequently invited to financial tender opening.

However, all the prices quoted by all bidders were not read and recorded in the tender register in accordance with section 78(6) of the Public Procurement and Asset Disposal Act 2015 thereby defeating the objective of competition under national open tender procurement method. The tender was eventually awarded to Vaghjiyani Enterprises Ltd at a contract sum of Kshs.2,129,001,805 against a budget provision of Kshs.17,000,000 thereby overcommitting the university resources to unplanned procurement activities.

Further, no financial evaluation or due diligence was carried out on the vendor in accordance with the tender documents evaluation criteria to assess their suitability and financial ability to undertake the works and this poses a threat to the quality of works being carried out in the project.

In addition, the works on the project were commenced without obtaining the approved architectural and structural drawings from Nakuru County Government and this may negatively affect the project scope thereby escalate the project costs due to lack of proper specifications.

In the circumstances it was not possible to confirm the propriety of the expenditure and if public funds were properly charged.

3.2 Awards of Contract to Circuit Business Systems (K) Ltd without Budgetary Allocation

Egerton University Awarded Circuit Business Systems (K) Ltd the contract for the supply, installation and commissioning of ICT Infrastructure, computers, laptops and media transmission equipment at a cost of Kshs.105,215,476 on 27 April 2017 through open tender No.EU-ONT-26-2016-2017 without adequate budgetary provision or professional opinion from the head of procurement.

Further, the contract expired on 19th June 2017 and was subsequently renewed for additional period of eighteen weeks with effect from 13th July 2017 to 30th November 2017 upon the advice of the Deputy Chief Procurement Officer. However, no evidence was provided to indicate the current performance status of the contract upon its expiry on 30th November 2017, consequently, the validity of the contract signed could not be confirmed.

3.3 Award of Contract to Technology Associates East Africa Ltd without Approved Budget

Egerton University contracted Technology Associates East Africa Ltd, for the supply, delivery, installation and commissioning of ICT Infrastructure, Computers, Laptops and Media Transmission Equipment at a cost of Kshs.93,652,472 on 4 May 2017 against a budget provision of Kshs.7,260,708.90 in total breach of the Public Procurement and Disposal Act Provisions.

Further, the contract was awarded without a professional opinion from the head of procurement contrary to the Public Procurement and Asset Disposal Act 2015, provisions and therefore it was not clear what factors the Accounting Officer considered in arriving at the award decision.

In addition, the contract had not been executed by June 2018 and no status report was availed for audit scrutiny to confirm the current performance state, therefore the validity of the contract signed could not be confirmed.

3.4 Irregular Procurement of Security Control Checkpoint and Associated Buildings (Gate)

Egerton University contracted M/s. Cell Arc Systems to undertake the construction of security control check point and associated buildings (Gate) at a cost of Kshs.65,789,948.75 through open Tender No. EU/ONT/02/2016-2017 as advertised in the Standard Newspaper of 21/7/2016. However, it was noted that they were finally awarded the contract by the Accounting Officer even though the performance security bond presented by them and issued by Equity Bank of Kshs.6,578,995 was fraudulent and warranted their disqualification as was recommend by the university legal officer.

Therefore, the validity of the contract signed between the university and Cell Arc Systems could not be confirmed.

4 Revenue from Exchange Transactions

4.1 Tuition Fees Reversals without Approval and Documentation

The statement of financial performance reports revenue from exchange transactions of Kshs.1,474,080,883 as at 30 June 2018 which includes Kshs.1,331,483,613 from tuition and other related fees as disclosed in note 11 to the financial statements. However, included in the amount of Kshs.1,331,483,613 are tuition and other related fees of Kshs.876, 245,721.80 that were reserved in the books of account during the year under review without supporting approvals or accounting documentation explaining their nature or details with the overall effect of reducing total revenue for the financial year by the same amount.

In the event that the revenue collection system design and controls are not evaluated to address the process of making reversals and documentation including segregation of duties and approval levels the university may be exposed to cases of internal fraud or manipulation of financial records by staff.

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Internal Control Weaknesses

1.1 Lack of an Offsite Data Recovery Centre

The University did not have an offsite data recovery center either within the university location or with an offsite vendor to enable it obtain critical data from its back up store in the event of a disaster occurring in compliance with the Disaster Recovery Policy. This situation if allowed to continue may impact negatively on the University's ability to resume normal operations in the event of a disaster happening.

1.2 Lack of Information Technology Systems Interface

The Management Information Systems used by the university namely Academic Records Management Systems (ARMS), Student Records Maintenance System (SRMS), Sage Accpac Accounting System and the Human Resource Management system were not integrated or interfaced with each other to facilitate a common shared data base to facilitate easy access to information and better service delivery in executing the university mandate.

In addition, the technical support for Student Records Maintenance System (SRMS) usage and maintenance was obtained directly from the software developer without any formal service level agreement or patent ownership rights. This state of affairs exposes the university to disruption of operations in the event the developer discontinues services or locks the system due to business disagreements.

Further, the Sage Accpac Accounting System used in processing financial information and statements is unable to produce final financial statements exposing them to errors of misstatements and omissions as a results of inadequate controls.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the university 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 resources are applied in an effective way.

Those charged with governance are responsible for overseeing the 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:

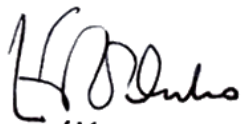
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 Egerton University to cease 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 Egerton 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 controls 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

14 March 2019

