

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the financial statements of Technical University of Kenya set out on pages 1 to 17, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of cash flows and statement of comparative 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 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 comply with the University's Act, 2012.

In addition, as required by the 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 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. Going Concern

During the year under review the University recorded a deficit of Kshs.503,221,963 (2016 deficit: Kshs.473,863,757) thereby reducing revenue reserves to negative Kshs.1,762,122,621 as at 30 June 2017. Further, the current liabilities of Kshs.1,876,385,738 as at 30 June 2017 exceeded the current assets of Kshs.331,650,704 as at the same date resulting in a negative working capital of Kshs.1,544,735,034. The University was unable to meet its financial obligations as and when they fell due. In particular the University was unable to remit pension deductions, other statutory obligations, SACCO deductions and contractors and general creditors of Kshs.772,938,937, Kshs.616,695,024, Kshs.181,211,352 and Kshs.83,615,090 respectively all totalling Kshs.1,654,460,403. The University also failed to pay audit fees totalling Kshs.4,060,000 for four (4) financial years 2012/2013 to 2015/2016. The University's financial statement have therefore been prepared as an ongoing concern basis on the assumption of continued support from the National Government, bankers and creditors.

2. Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.5,620,791,075 as at 30 June,2017 includes four (4) parcels of land reference Nos.209/7203, 209/8726, 209/16715, 209/11381 owned by the university with an estimated total value of Kshs.3,068,000,000 and which still bear the name of the defunct Kenya Polytechnic.

Further, and as similarly reported in 2015/2016 the work-in-progress balance of Kshs.122,450,382 includes an expenditure of Kshs.1,542,800 in respect of consultancy services on Human Immunodeficiency Virus (HIV) which was capitalized contrary to Public Sector Accounting Standards No.17 which defines property, plant and equipment as tangible assets held for use in the production or supply of goods or services.

In the circumstance, it has not been possible to confirm the accuracy, completeness and ownership status of the property, plant and equipment balance of Kshs.5,620,791,075 as at 30 June 2017.

3. Cash and Cash Equivalents

As disclosed in Note 9(a) to the financial statements, the cash and cash equivalents balance of Kshs.77,029,102 for the year ended 30 June, 2017 could not be confirmed due to the following differences:

- i. Cashbooks and bank reconciliation statements for the student deposit account of Kshs.729,614, needy students account of Kshs.105,738 fixed deposit of Kshs.300,000, hostel fund account of Kshs.534,648, main account of Kshs.11,927,339 were not availed for audit verification.
- ii. In addition, the financial statements balances were at variance with the cashbook balances for both the Cooperative Bank and Equity Bank collection account as indicated below:

Account Name and Number	Financial Statement Balances	System Cashbook Balances	Variances
Co-op Bank Collection account	7,525,861	(352,593,245.20)	360,119,106.20
Equity Bank Collection account	5,852,790	(248,366,631.36)	254,219,421.36

Further, the bank reconciliation statements for the above two bank accounts were not availed for audit review.

In the circumstances, the accuracy, validity and completeness of the cash and cash equivalents balance of Kshs.77,029,102 as 30 June 2017 cannot be ascertained.

4.0 Trade and Other Receivables

4.1 Long Outstanding Debtors

As disclosed in note 10 to the financial statements, the trade and other receivables balance of Kshs.252,728,838 as at 30 June 2017 includes salary advances, dishonored cheques and nyayo vehicle project balances of Kshs.562,345, Kshs.562,501 and Kshs.500,000 respectively which have been outstanding for a long period of time and whose supporting analyses, ledgers and documents were not availed for audit review. In the circumstance, it has not been possible to confirm the full recoverability of trade and other receivables balance of Kshs.252,728,838 as at 30 June, 2017.

4.2 Overdue Staff Imprest

Further, the trade and other receivables balance includes temporary imprest balance of Kshs.10,790,431 which ought to have been accounted for as at 30 June 2017 but were still outstanding as at the date of this report. This is contrary to Section 93 (5) of the Public Finance Management (National Government) Regulations, 2015 which provides that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station.

In the circumstance, it has not been possible to confirm full recoverability of trade and other receivables balance of Kshs.252,728,838 as at 30 June 2017 and whether it was fairly stated.

5. Trade & Other Payables

As disclosed in Note 8 to the financial statements, the trade and other payables balance of Kshs.1,876,385,738 as at 30 June 2017 includes payables totalling Kshs.320,295,211 as listed below whose supporting ledgers schedules and aging analysis was not availed for audit review.

Description	Amount (Kshs)
Contractors & General Creditors	83,615,090
Provision for NCC - Land Rates	3,221,572
UoN Salary Reimbursement	23,170,357
Third Party Funds	22,604,888
Sacco Deductions	181,211,352
Insurance Premium Deductions	6,471,952
TOTAL	320,295,211

Further, examination of the pension ledger revealed double posting of transactions amounting to Kshs.24,797,474 and two unsupported and unexplained entries totalling to Kshs.41,755,680.

In addition, payroll records reflects other deductions to the National Hospital Insurance Fund (NHIF) and National Social Security Fund (NSSF) amounting Kshs.23,622,250 and Kshs.2,647,275.40 respectively whose supporting ledgers were not availed and therefore it was not possible to determine if the same had been remitted as per the law.

In the circumstance, the accuracy, validity and completeness of the trade and other payables balance of Kshs.1,876,385,738 as at 30 June 2017 cannot be ascertained.

6. Rendering Services

Note 5(a) to the financial statements reflects rendering income balance of Kshs.863,984,562 for the year ended 30 June 2017 in respect of actual fees collected during the year and does not include accrued income. This is contrary to accrual concept of accounting and note 2(a) 1- of the summary of significant accounting policies provide that the revenue from the sale of goods and services is recognized in the year in which the University delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

In the circumstance, it has not been possible to confirm that rendering services balance of Kshs.863,984,562 for the year ended 30 June 2017 is fairly stated.

7. Other Income

Note 5(b) to the financial statements reflects other incomes balance of Kshs.13,011,350 as at 30 June 2017 which is at variance with the supporting schedule figure of Kshs.11,537,350 resulting in unexplained difference of Kshs.1,474,000. In the circumstance, it has not been possible to confirm the accuracy, validity and completeness of other income balance of Kshs.13,011,350 as at 30 June 2017.

8. Repairs and Maintenance

As disclosed in Note 6(f) to the financial statements is repair and maintenance balance of Kshs.24,531,956 made up of maintenance of motor vehicles balance of Kshs.13,430,667 and maintenance of other assets of Kshs.11,101,289. However, examination of the repair transactions in the ledger revealed that an amount of Kshs.2,542,126 had been posted twice and therefore overstating the account balance by the same.

In the circumstances the accuracy and validity of the repairs and maintenance balance of Kshs.24,531,956 for the year ended 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Technical University of Kenya in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with 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 form a basis for my Qualified Opinion.

Key Audit Matters

Key audit matters are those matters 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 of my report, I determine that there were no Key Audit Matters to communicate in my report.

Responsibility of Management and those Charged with Governance for the Financial Statements

The Accounting Officer – Technical University of Kenya 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 University's ability to continue 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 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.

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 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.

- 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 as a going concern or to sustain service. 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 or to continue 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 entities or business activities of the University to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in financial statements

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.

A handwritten signature in black ink, appearing to read 'E. O. Ouko', with three dots below the signature.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

26 June 2018