

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

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## **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 17, which comprise the statement of financial position as at 30 June 2018 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 Technical University of Kenya 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. Going Concern**

During the year under review the University recorded a deficit of Kshs.835,034,947 (2017 deficit: Kshs.503,221,963) thereby reducing revenue reserves to negative Kshs.2,410,709,305 as at 30 June 2018 from a negative Kshs.1,576,674,358 as at 30 June 2017.

Further, the current liabilities of Kshs.3,127,349,460 as at 30 June 2018 exceeded the current assets of Kshs.1,017,948,238 as at the same date resulting to a negative working capital of Kshs.2,109,401,222.

The University was 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.28,639,248, Kshs.1,079,085, Kshs.23,156,808, 111,883,108 and Kshs.1,409,677,046 respectively all totalling Kshs.1,574,435,295. The University also failed to pay audit fees totalling Kshs.4,872,000 for five (5) financial years 2012/2013 to 2016/2017. The University's financial statement have therefore been prepared on a going concern basis on the assumption of continued support from the National Government, bankers and creditors.

## 2. Trade and Other Receivables

As disclosed in note 10 to the financial statement the trade and other receivables balance of Kshs.939,587,581 as at 30 June 2018 includes long outstanding balances brought forward from earlier years under deposits to suppliers totaling Kshs.104,350.00, Nyayo vehicle Project Kshs.500,000.00 and dishonored cheques Kshs.562,501.00 respectively which have been outstanding for a long period of time and whose supporting analysis, ledgers and documents were not availed for audit review.

In the circumstances, it has not been possible to confirm the full recoverability of trade and other receivable balance of Kshs.939,587,581 and that the balance is fairly stated as at 30 June 2018.

## 3. Property, Plant and Equipment

As previously reported, the property, plant and equipment balance of Kshs.5,536,870,579 as at 30 June, 2018 includes four (4) parcels of land reference Nos.209/7203, 209/8726, 209/16715, 209/11381 located in Nairobi Central Business District, South B, Upper Hill and South C respectively 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 2016/2017 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 circumstances, it has not been possible to confirm the accuracy, completeness and ownership status of the property, plant and equipment balance of Kshs.5,536,870,579 as at 30 June 2018.

## 4. Trade and Other Payables

As previously reported, as disclosed in Note 8 to the financial statements, the trade and other payables balance of Kshs.3,127,335,958 as at 30 June 2018 includes payables totalling Kshs.226,364,524 as listed below and whose supporting ledgers, schedules and aging analysis were not availed for audit review.

<b>Description</b>	<b>Amount (Kshs)</b>
Contractors & General Creditors	56,630,967
Provision for NCC - Land Rates	3,221,572

UoN Salary Reimbursement	48,033,224
Third Party Funds	5,516,568
Sacco Deductions	111,883,108
Insurance Premium Deductions	1,079,085
<b>TOTAL</b>	<b>226,364,524</b>

In the circumstance, the accuracy, validity and completeness of the trade and other payables balance of Kshs.3,127,335,958 as at 30 June 2018 cannot be ascertained.

## 5. Cash and Cash Equivalents

As previously reported and 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 as the 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 and hostel fund account of Kshs.534,648 were not availed for audit verification. Review of this matter as at the end of March 2019 revealed that it was still outstanding.

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

## 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.

## Other Matter

## Budgeted Revenue

The University budgeted to collect income totaling to Kshs.3,185,225,280. However, documents presented for audit indicated that a total of Kshs.2,135,356,776 was collected leading to a shortfall of Kshs.1,049,868,504 or 33% as indicated in the table below-

	Current year final Budget Figures	Current year Actuals Amounts Received	Variance	% Difference

	Kshs.	Kshs.	Kshs.	%
<b>Revenue source</b>				
Government grants- Recurrent	1,473,059,861	1,473,059,861	-	-
Grants, Development partner(Donor partner)	178,000,000	53,420,593	124,579,407	<b>70%</b>
Rendering services	1,427,223,419	607,322,422	819,900,997	<b>57%</b>
Other income- Recurrent	106,942,000	1,553,900	105,388,100	<b>99%</b>
<b>Total Revenue</b>	<b>3,185,225,280</b>	<b>2,135,356,776</b>	<b>1,049,868,504</b>	

The management has attributed the under collection of revenue to under realization of donor funded research grants and reduction in the number of students applying for module two programmes and continuing students who opted to defer their studies. There is need for the University to have new strategies in place on how to grow the revenue base.

### **Expenditure Budget**

The University total budgeted expenditure amounted to Kshs.3,159,817,568 against total actual expenditure of Kshs.2,970,391,723 resulting to net under expenditure of Kshs.189,424,845 as summarized below:

<b>Expenses</b>	<b>Current year Final Budget Figures Kshs.</b>	<b>Current year Actuals Amounts Kshs.</b>	<b>Excess Expenditure Kshs.</b>	<b>Under Expenditure Kshs.</b>	<b>% Difference %</b>
Repairs and maintenance	17,719,093	24,627,701	6,908,608		<b>38%</b>
Contracted professional services	15,142,154	19,575,375	4,433,221		<b>29 %</b>
Land rates and rentals	13,104,201	19,741,401	6,637,200		<b>51%</b>
Staff training expenses	9,495,678	11,594,798	2,099,120		<b>22%</b>
Depreciation	0	116,111,496	116,111,496		<b>100%</b>
Provision for bad debts	0	76,317,638	76,317,638		<b>100%</b>
Employee Cost	2,562,974,349	2,507,235,160		55,739,189	<b>2%</b>
Council expenditure	7,196,529	5,627,925		1,568,605	<b>22%</b>
Bulk purchase of electricity	66,498,558	38,228,984		28,269,574	<b>2%</b>

<b>Expenses</b>	<b>Current year Final Budget Figures Kshs.</b>	<b>Current year Actuals Amounts Kshs.</b>	<b>Excess Expenditure Kshs.</b>	<b>Under Expenditure Kshs.</b>	<b>% Difference %</b>
Provision for Audit fees	1,000,000	812,000		188,000	19%
Other operating expenses	21,909,176	0		21,909,176	100%
Printing and advertising	23,917,479	9,242,658		14,674,821	61%
Hospitality supplies and services	18,055,224	10,038,435		8,016,789	44%
Medical; and insurance expenses	44,477,216	23,994,308		20,482,908	46%
Specialized teaching material &Supplies	279,915,961	64,809,109		215,106,852	76%
General supplies	28,954,311	25,048,733		3,905,578	13%
Communication supplies and services	24,880,827	8,459,140		16,421,687	66%
Foodstuff supplies	10,484,016	5,885,324		4,598,692	43%
Fuel gas and lubricant	14,092,796	3,041,538		11,051,258	78%
<b>Total</b>	<b>3,159,817,568</b>	<b>2,970,391,723</b>	<b>212,507,283</b>	<b>401,933,128</b>	

The management has attributed the underutilization of budget to under funding from the Ministry of Education which led to scaling down of expenditures. There is need therefore for the University to be realistic in its budgeting and to have strategies in place to minimize costs including cutting costs in areas that can be deferred for future implementation.

## 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, I confirm that, nothing 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

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 ON 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 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, 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 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 Authority's 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.



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

**Nairobi**

**15 April 2019**