

REPORT OF THE AUDITOR-GENERAL ON UNIVERSITY OF ELDORET FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of University of Eldoret set out on pages 1 to 35 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 described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of University of Eldoret 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 Universities Act No.42 of 2012.

Basis for Qualified Opinion

1.0 Valuation of Property, Plant and Equipment

As previously reported, property, plant and equipment balance of Kshs. 1,118,763,927 as at 30 June 2018 includes transfer of assets from Moi University of Kshs.979,141,065 for which no valuation report was provided for audit verification in support of the transferred assets. Available information revealed that the University entered into a contract for valuation of the assets on 7 April 2017 at a contract sum of Kshs.3,458,192 to be delivered in twelve weeks though Note15 indicates Kshs.5,000,000 was paid for asset tagging and valuation. Although assets had been tagged as at the time of audit in October 2018 the valuation report had not been submitted one year later.

Under the circumstances, the validity and accuracy of property, plant and equipment net book value of Kshs.1,118,763,927 as at 30 June 2018 could not be confirmed.

2.0 Motor Vehicle Ownership

Available information revealed that log books for forty (40) motor vehicles belonging to the University were in the name of Moi University and one (1) in the name of M/s Wilfred Kipkorir Sang. Although the management explained that it was in the process of transferring the ownership into her name, no evidence was provided to show the progress made so far. In addition, no explanation was provided under which circumstances one vehicle was registered in the name of one Wilfred Kipkorir Sang.

Under the circumstances, the ownership status of the forty-one motor vehicles could not be confirmed as at 30 June 2018.

3.0 Student Debtors

The statement of financial position reflects receivables from exchange transactions balance of Kshs.688,240,447 which includes a figure of Kshs.186,022,162 from students which has been outstanding for more than three years. Although the University provided for bad and doubtful debts figure of Kshs.13,603,950 in accordance with the university policy that provides for bad and doubtful debts at a rate of 2% of the outstanding debts as at the end of the year, the figure however appears inadequate taking into account the debtors outstanding for more than three years. Further, included in the student debtors figure is a balance of Kshs 326,600,000 comprising of non-moving debtors whose supporting documents were not made available for audit review. The management has explained that investigation is being carried out to establish the correct status with a view to correcting this amount appropriately.

Under the circumstances, it has not been possible to confirm the accuracy, completeness and recoverability of the receivables from exchange transactions balance of Kshs.688,240,447 as at 30 June 2018.

4.0 Outstanding Imprests and General Debtors

Included in the receivables from exchange transactions balance of Kshs.688,240,447 as at 30 June 2018 is staff imprests and general debtors of Kshs.10,315,094 and Kshs.5,801,266 respectively. Its has not been explained why management could not recover this huge outstanding balances.

In consequence, the propriety, validity and recoverability of the outstanding imprests and general debtors of Kshs.16,116,360 could not be ascertained.

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

Other Matters

1.0 Unremitted employee pension contributions

The statement of financial position as at 30 June 2018 reflects total liabilities figure of Kshs.720,301,218 which includes other payables from payroll dues of Kshs.97,423,576 as disclosed under note 28 (c) to the financial statements. Records made available for audit review revealed that included in the other payables from payroll dues of Kshs.97,423,576 is an amount of Kshs.44,412,300 being staff unremitted deductions relating to the employer pension & provident fund for the period 2013-2017.The deductions were as a result of Collective Bargaining Agreement and which have not been remitted to pension funds contrary to Retirement Benefits Act Cap 197. Consequently, the University is in breach of the law and risks paying penalties due to non-remittances of the statutory deductions of Kshs.97,423,576 as at 30 June 2018.

2.0 Loss from Income Generating Activities

During the year under review, the university incurred expenses for farm, catering and bookshop of Kshs.11,019,065, Kshs.15,289,805 and Kshs.4,751,784 respectively as shown in Note7(b). However, the university earned income of Kshs.7,802,645, Kshs.4,737,074 and Kshs.10,821,636 for farm, catering and bookshop respectively resulting into huge unjustified losses of Kshs.3,216,419, Kshs.10,552,731 and Kshs.306,892 as at 30 June 2018. Further, the losses have led to a total net generating activity income of (Kshs.2,280,046) as shown on Note 7. Although management has attributed the losses to weather conditions and catering subsidies, the reasons are not justifiable.

As a result, the expected university revenue collection and planned and budgeted activities could not be achieved.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Conclusion on Compliance and Effectiveness 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 conclusion

1.0 Perimeter Wall – Proposed Construction of Masonry Perimeter Fence Phase II at University of Eldoret – Tender No. UOE/09/2016-2017

The contract of the construction of Perimeter Fence Phase III was awarded to M/S Civil Trust Engineering and Construction Ltd at a contract sum of Kshs.32,494,800 out of which Kshs.21,399,762 or about 66% of the contract sum had been paid according to certificate No. 4 of 18 June 2018. The project was scheduled for completion on 28 October 2017. However, Site visit done on 24 October 2018 and status report revealed that the works were ongoing and 90% complete. The project thus behind schedule by twelve (12) months and no evidence of extension of the contract period was provided for audit review. Consequently, value for money was not effectively achieved within the stipulated timeframe.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, 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.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and

systems of internal control, risk management and governance was maintained in all material respects.

The matters reported are limited to the deficiencies identified during the audit that I have concluded are material to be reported. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this review.

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/International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls 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.

In preparing the financial statements, management is responsible for assessing the University of Eldoret ability to continue as a going concern/sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the University of Eldoret 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the University of Eldoret 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 noncompliance. 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 University of Eldoret 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 of Eldoret ability to continue as a going concern or 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 of Eldoret to cease to continue as a going concern or 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 University of Eldoret 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

3 January 2019