

REPORT OF THE AUDITOR-GENERAL ON UNIVERSITY OF ELDORET FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of University of Eldoret set out on pages 1 to 36, which comprise the statement of financial position as at 30 June, 2020, 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 the University of Eldoret as at 30 June, 2020, 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 No.42 of 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in Cash and Cash Equivalents

1.1. Unreconciled and Unexplained Difference in the Balances

The statement of financial position as at 30 June, 2020 reflects cash and cash equivalents balance of Kshs.460,610,356 and as disclosed in Note 22(a) to the financial statements. However, the statement of cash flows reflects cash and cash equivalents at the end year of Kshs.460,052,306. The resulting difference of Kshs.558,050 has not been reconciled or explained.

1.2. University of Eldoret Student Organization Account

Disclosed in Note 22(a) to the financial statements under cash and cash equivalents balance of Kshs.460,610,356 is an amount of Kshs.847,937 which was held in Co-operative Bank (UESO Account) and relating to the university student organization. However, the amount has not been concurrently and specifically disclosed under other payables- students in Note 28(b) to the financial statements. No explanation has been provided for this omission.

1.3. University of Eldoret-Endowment Fund

Included also in the cash and cash equivalent balance of Kshs.460,610,356 as disclosed in Note 22(a) to the financial statements is University of Eldoret-Endowment Fund amount of Kshs.888,000. However, the amount has not been concurrently and specifically disclosed under other payables- payroll in Note 28(c) to the financial statements. No explanation has been provided for this omission.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.460,610,356 as at 30 June, 2020 could not be confirmed.

2.0 Unreconciled Transfers from Work-In-Progress

Included in the property, plant, and equipment balance of Kshs.1,095,059,971 as at 30 June, 2020 are transfers from work-in-progress (W.I.P) of Kshs.69,121,789 as disclosed in Note 26 to the financial statements. However, Note 25(a) to the financial statements on property, plant and equipment shows transfers from W.I.P. 2020 of Kshs.49,351,480 resulting in unexplained/unreconciled variance of Kshs.19,770,309.

In the circumstances, the accuracy and completeness of transfers from work in progress figure of Kshs.69,121,789 as at 30 June, 2020 could not be confirmed.

3.0 Retention (Contractor)

The statement of financial position as at 30 June, 2020 reflects trade payables from exchange transactions balance of Kshs.71,523,928, which include retention (contractor) monies amounting to Kshs.36,538,447 as disclosed under Note 28(a) to the financial statements. However, the management did not maintain a separate cash book and bank account for retention money.

In the circumstances, it has been not possible to confirm the existence, accuracy and completeness of the retention monies balance of Kshs.36,538,447 as at 30 June, 2020.

4.0 Research Fund Account

The statement of financial position as at 30 June, 2020 reflects research fund account balance of Kshs.71,531,611. During the year, the University received donor funds totalling Kshs.128,529,041 out of which an amount of Kshs.56,997,430 was disbursed to lecturers for research purposes. Although, the University management provided documents indicating how the funds were disbursed to the lecturers, there were no reports of the research done to support the achievement of intended objective or purpose of the donor funds.

In the circumstances, the validity and completeness of the expenditure of Kshs.56,997,430 incurred on research fund account could not be confirmed.

5.0 Inaccuracies in the Statement of Changes in Net Assets

The statement of changes in net assets for the year ended 30 June, 2020 reflects under revenue reserves an unexplained and unsupported opening balances of (Kshs.49,750,674).

Further, the statement of changes in net assets reflects prior year adjustments of (Kshs.93,843,723) under revenue reserves whereas the total amount across is shown as Kshs.12,877,889.

Consequently, the accuracy of statement of changes in net assets as at 30 June, 2020 could not be confirmed.

6.0 Long Outstanding Imprest

Included in receivables from exchange transactions balance of Kshs.381,175,950 are staff imprests totalling Kshs.5,329,113 as at 30 June, 2020. These imprests includes amounts of Kshs.5,304,613 which have been outstanding for long, with some relating to the year 2014, contrary to Section 71(1) of the Public Finance Management Act 2012.

In the circumstances, the recoverability of the imprest amounting to Kshs.5,304,613 is doubtful.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of University of Eldoret 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. There were no key audit matters to report in the year under review.

Other Matter

Loss Making Activities

Included in Note 7(c) to the financial statements under net income generating activities are the revenue streams highlighted below, which have been making substantial losses:

Revenue Stream	2019/2020 Financial Year Kshs.	2018/2019 Financial Year Kshs.
Farm income	(1,299,293)	(1,123,564)
Catering income	(855,772)	(4,976,840)
Bookshop Sales	(761,654)	874,457
Overall loss	(2,916,719)	(5,225,947)

The Management is yet to implement strategies to reverse the loss-making trend.

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

1.0 Litigation Against the University

The statement of financial performance for the year ended 30 June, 2020 reflects administration and central services expenses of Kshs.65,259,153 which include legal fees of Kshs.12,975,331. The amount was paid to a private legal firm vide two cheques numbered 40469 dated 20 March, 2020 of Kshs.4,247,363 and 40624 dated 16 March, 2020 with two payments of Kshs.2,969,000 and Kshs.5,080,800, respectively.

The University of Eldoret had been sued on various matters for which it either counter sued or appealed. In defending or litigating the cases, the University hired a private advocate to represent the University in Employment and Labour Relations Court where two employees sued the University for unfair dismissal. The court awarded them Kshs.38,903,116 through a judgement which was delivered on 9 July, 2019.

Further, one of the litigants earned salaries amounting to Kshs.14,157,725 during the litigation period, May, 2016 to October, 2019 from the University.

Therefore, the value of money for the legal fees expenditure of Kshs.12,975,331 incurred by the University could not be justified.

2.0 Disproportionate Increase in Accrued Expenses

The statement of financial position reflects accruals and provisions totalling Kshs.511,722,803 which include accrued expenses of Kshs.504,553,967 as at 30 June, 2020 (2019 - Kshs.164,630,181). The disproportionate increase in accrued expenses by Kshs.339,923,786 or 206% in the financial year 2019/2020 is an indication that the university was not paying its obligations as they fall due.

3.0 Council Expenses

During the year under review, the University incurred expenses for the meetings held by its Council amounting to Kshs.18,560,104. However, examination of the payment documents revealed that out of the Kshs.18,560,104, the Management issued imprests amounting to Kshs.7,087,010 to one officer to pay the Council members their allowances and other incidental expenses.

The Management did not issue imprests and deposit the funds directly into the individual Council member's bank account. This is contrary to the National Treasury Circular No.18/2009 of 29 September, 2009 which encouraged payment through electronic funds transfer.

4.0 Proposed Construction of School of Business Studies and Economics at University of Eldoret

A contract for construction of schools of business studies and economics was awarded to a construction company at a contract sum of Kshs.241,236,042 out of which Kshs.187,165,697 or about 78% of the contract sum had been paid as of 30 June, 2020. According to the contract documents, the project was scheduled for completion on 6 September, 2017.

A site visit on 14 January, 2021 and status report revealed that the works were still ongoing. The project is thus behind schedule by thirty-nine (39) months. Although the Management explained that the contractor had requested for extension of the contract period, no evidence was provided to prove that the request was granted.

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 overall governance were not effective.

Basis for Conclusion

ERP System Imprest Reports

A review of the ERP system imprest reports revealed that in some cases, the system duplicated imprest surrender multiple times resulting in overall reduction in imprest owing to the University and the total receivables. This is an indication that the system, which the University had acquired at a cost of Kshs.19,140,000 and later on entered into a Service Level Agreement with the vendor to provide system service support, at an annual cost of Kshs.2,296,800, is either faulty, inefficient or open to manipulation.

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 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 the University Council

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 continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the 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.

The University Council is 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 of Eldoret's ability to continue 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 to cease to continue sustaining 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

31 January, 2022