

REPORT OF THE AUDITOR - GENERAL ON UNIVERSITY OF EMBU FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of University of Embu set out on pages 36 to 73, which comprise the statement of financial position as at 30 June, 2021, 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 Embu as at 30 June, 2021, 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 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Unreconciled Variances Between Ledger and the Enterprise Resource Planning Balance

Review of the ledger balances against the Enterprise Resource Planning (ERP) system revealed the following variances. Eleven (11) ledgers extracted from the ERP system indicated total amounts of Kshs.40,650,879 while the ledgers provided for audit for the same components indicated total amounts of Kshs.43,976,738 resulting in unexplained and unreconciled variances of Kshs.3,325,859 as follows: -

Item	ERP System Balances	Ledgers Provided	Variation
Electricity	8,956,240	9,311,967	(355,727)
Exam Moderation & Supervision	4,676,842	5,389,342	(712,500)
Gas & Charcoal	636,100	596,600	39,500
ICT Expenses	618,221	593,327	24,894
Exhibitions	60	88,220	(88,160)
Other Office Expenses	1,999,226	2,173,340	(174,114)
Consultancy Services	1,159,426	1,153,708	5,718
Student Awards and Bursaries	3,646,744	2,500,000	1,146,744
Transport Operating	5,382,938	5,362,224	20,714
Protective Gear	346,603	326,372	20,231
Performance Management	40,000	3,293,159	(3,253,159)
TOTAL	40,650,879	43,976,738	(3,325,859)

As a result, the accuracy and validity of the ledger balances could not be confirmed.

2.0 Unsupported Student Awards and Bursaries

The statement of financial performance reflects general expenses amount of Kshs.176,982,331 and as disclosed in Note 21 to the financial statements. Included in this amount is student awards and bursaries amount of Kshs.2,500,000 disbursed to various beneficiaries during the year under review. However, records on the award of the bursaries, including the names of the applicants and beneficiaries, award criteria and the Vetting Committee's minutes, were not provided for audit review.

As a result, the accuracy, completeness and validity of the awards could not be confirmed. Further, it was not possible to confirm whether the bursaries were awarded to the most deserving applicants and were utilized for the intended purpose.

3.0 Biological Assets

The statement of financial position reflects biological assets balance of Kshs.9,457,630, as disclosed in Note 28 to the financial statements. However, audit review of records on the balance revealed the following anomalies:

- i. The method applied in valuing the biological assets was not disclosed. As such, Management could not explain the increase in the value of biological assets by Kshs.2,287,455 during the year under review.
- ii. Three (3) heifers were reported to have been slaughtered during the year under review. However, Management did not provide records to confirm the quantity and value of meat realized from the carcasses.
- iii. A six-year-old cow was reported to have died on 26 January, 2021. Management did not provide for audit the death certificate indicating the cause of death.
- iv. The farm registers with records of acquisition, dates of birth, vaccinations and periodic weight measurements of livestock assets were not provided for audit.

In view of these anomalies, the accuracy, completeness, and valuation of the biological assets balance of Kshs.9,457,630 as at 30 June, 2021 could not be confirmed.

4.0 Unauthorised Expenditure on Procurement of Foodstuffs

The statement of financial performance reflects an amount of Kshs.176,982,331 in respect of general expenses. Included in the amount and as disclosed in Note 21 to the financial statements is Kshs.23,400,570 incurred on foodstuff. This exceeded the budget amount of Kshs.15,000,000 by an amount of Kshs.8,400,570. Management did not provide the Council approval for the over-expenditure or reallocation of funds.

In the circumstances, the validity of the over expenditure could not be confirmed.

5.0 Irregularly Overdrawn Cashbook

The statement of financial position and as disclosed in Note 31 to the financial statements reflects an overdrawn cashbook balance of Kshs.5,921,979. Management did not provide approval from the University Council or The National Treasury in support of the overdraw. This was contrary to Section 28(4) of the Public Finance Management Act, 2012 which provides that an Accounting Officer for a National Government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the National Treasury, or the Board of the entity.

Consequently, the Management was in breach of law and the overdrawing of the account was irregular.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the University of Embu Management in accordance with ISSAI 130 on the 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 other key audit matters to report in the year under review.

Other Matter

Prior Year Issues

The audit report for the previous year under the lawfulness and effectiveness in use of resources section raised one matter in regard to an overdrawn bank account. Management has indicated that efforts to resolve the matter are ongoing.

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 Delayed Implementation and Commissioning of Enterprise Resource Planning (ERP) System

The University entered into a contract for the supply, installation, testing, training, commissioning and maintenance of an enterprise resource program (ERP) Software in June, 2018 at a cost of Kshs.23,971,500 for a period of one year. The contract completion period was extended on three occasions on 19 June, 2019, 19 February, 2020 and 26 June, 2020. Management did not provide for audit documents and explanations in support of the contract extension.

Expenditure records indicated that Kshs.13,715,000 had been spent on procurement of the ERP software as at 30 June, 2021 which was reported under work-in-progress. However, at the time of the audit in September, 2020, the project had not been completed.

Consequently, the validity of the extension of the contract could not be ascertained and value for money has not been realised in the implementation of the ERP system.

2.0 Delayed Construction of Auditorium and Lecture Hall

Note 27 to the financial statements reflects Kshs.546,420,213 under capital work in progress, which includes Kshs.20,892,961 incurred on a proposed auditorium and lecture classroom. An addendum to the contract signed in June, 2018 indicated that the project was to be completed by 13 July, 2019 at cost of Kshs.40,405,020. However, at the time of the audit in October, 2021, the project had not been completed in spite of the expenditure of Kshs.20,892,961 incurred during the year. Further, the actual value of work done could not be confirmed as the respective works certificates were not provided for audit.

In addition, although the contract provided for liquidated damages totalling Kshs.60,000 for each week of delay in completing the project, there was no record of Management having asked to be compensated by the contractor.

In view of the delay, the project's expected benefits to the University and its students had not been realized.

3.0 Non-Rotation of Suppliers in Framework Contracting in the Supply of Foodstuff

The University advertised for the supply and delivery of dry foodstuffs and perishables, groceries, meat and meat products respectively using the framework agreement method of procurement. Three tenderers being the lowest bidders were recommended and awarded the tender in November, 2020.

However, the procurement unit continue to award the tenders to one of the suppliers despite the three bidders having been evaluated and recommended to supply the respective items they had bid for. Management did not provide reasons for giving preference to only one of the three bidders for all the supplies throughout the year.

In the circumstances, award of the tenders to one firm was irregular may have resulted in uneconomic use of public funds.

4.0 Irregular Procurement of Group Life Insurance

The University Management entered into a contract for provision of services on group life insurance through restricted tendering. This was contrary to Section 102 of the Public Procurement and Asset Disposal Act, 2015 which provides that an Accounting Officer of a procuring entity may use restricted tendering if the contract is of complex or specialised nature; the time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured; or if there is evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services. Management did not provide evidence in support of procuring the services through restricted tendering method.

In view of above, Management was in breach of law and value for money may not have been realised on the contract.

5.0 Lack of Public Finance Management Standing Committee

During the year under review, the University did not have a Public Finance Management Standing Committee in place. This was contrary to Regulation 18(1) of the Public Finance Management (National Government) Regulations, 2015. The Regulation requires Management in every National Government entity to establish a committee to be known as the Public Finance Management Standing Committee to provide strategic guidance to the entity on public finance management matters.

In the circumstances, Management was in breach of the law.

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

Irregular Access to Software System by Outsiders

Review of the software system used by the University indicated that five (5) of the system's developers who were not employees of the University retained unhindered access to the system even after handing it over to the University. Therefore, the system's security may be compromised since the developers could log in and initiate transactional or other activities independently.

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 effective processes and systems of internal control, risk management and overall 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 University's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability 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 University's financial reporting process, reviewing the effectiveness of how the Management 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 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 University of Embu 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 applicable 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 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 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 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 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

28 July, 2022