

REPORT OF THE AUDITOR-GENERAL ON EGERTON UNIVERSITY INVESTMENT COMPANY FOR THE YEAR ENDED 30 JUNE, 2022

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 the 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 Egerton University Investment Company set out on pages 11 to 34, which comprise the statement of financial position as at 30 June, 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity, 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 Egerton University Investment Company as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Revenue

The statement of profit or loss and other comprehensive income reflects revenue of Kshs.73,632,190 which includes receipts of Kshs.5,637,144 from Lord Egerton Castle. However, receipt book serial numbers 19350 to 19400 issued to the Lord Egerton Castle for collection of revenue was not provided for audit verification and the resultant revenue has not been accounted for or disclosed.

Under the circumstances, the accuracy and completeness of reported revenue of Kshs.5,637,144 for the year ended 30 June, 2022 could not be confirmed.

2. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.29,572,658. However, the balance excludes value of 2,728 acreage farm, ARC Hotel building, and Lord Egerton Castle bequeathed to the Company by Egerton University. There was also no documentary evidence on the bequeathment to confirm the terms so as to confirm if it is under finance or operating lease. Further, the balance includes plant and machinery of Kshs.6,412,800 whose ownership documents were not provided for audit.

Under the circumstances, the accuracy, valuation, fair statement and rightful ownership of the property, plant and equipment balance of Kshs.29,572,658 as at 30 June, 2022 could not be confirmed.

3. Trade and Other Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.112,701,079. Included in the balance are receivables totalling to Kshs.110,989,288 (or 94%) which have been outstanding for more than a year. However, no provision has been made for their doubtfulness. Further, Management has not indicated having made any efforts to recover the long outstanding receivables.

Under the circumstances, the accuracy and fair statement of trade receivables balance totalling Kshs.112,701,079 as at 30 June, 2022 could not be confirmed.

4. Bank and Cash Balances

The statement of financial position reflects bank and cash balances of Kshs.8,372,228. However, three (3) bank accounts reflect bank overdraft balance totalling to Kshs.4,315,755 which differs with their respective cash book balances of Kshs.5,859,972 resulting to unreconciled variance of Kshs.10,175,727 as detailed below:-

Account Name	Account Number	Cashbook Balance (Kshs.)	Financial Statements Balance (Kshs.)	Variance (Kshs.)
Egerton University Investment Company	1136869271	5,099,939	(1,436,499)	6,536,438
ARC Account	1101907339	735,364	(1,131,903)	1,867,267
Ngongogeri Farm	1109628668	24,669	(1,747,353)	1,772,022
Total		5,859,972	(4,315,755)	10,175,727

Further, the bank and cash balances include cash in hand of Kshs.12,687,983 that was collected and not banked by a former employee dating back to 2015. Although the Management has indicated that the Board is still pursuing the issue of recovery of the cash, not much progress has been made. In addition, cash destroyed by fire at the Lord Egerton Castle on 12 February, 2020 totalling to Kshs.44,825 has not been written off or compensated through an insurance claim.

Under the circumstances, the accuracy and fair statement of the reported bank and cash balances totalling to Kshs.8,372,228 as at 30 June, 2022 could not be confirmed.

5. Borrowings

The statement of financial statements reflects borrowings of Kshs.150,119,907 relating to cash transfers from the University. Included in the amount is Kshs.145,400,000 from the University advanced in 2013. However, the loan agreement was not provided for audit verification. Further, it has been disclosed in Note 18 to the financial statements that the loan has been converted to a contribution to the Company. However, no documentary evidence in support of the conversion of the loan to a donation was provided for audit verification. In addition, the financial statements have not been adjusted to reflect the current status of the loan.

Under the circumstances, the accuracy and fair statement of borrowings totalling to Kshs.145,400,000 as at 30 June, 2022 could not be confirmed.

6. Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.165,644,376. The balance includes unpaid net salaries and statutory deductions totalling to Kshs.86,625,550 which has remained outstanding for more than 90 days. Further, included in the trade and other payables balance are payables with debit balances of Kshs.8,347,868. This is indicative of creditors that were either overpaid or paid in advance. The Management attributed the advance payment to lack of creditworthiness. However, the advance payments have been outstanding for over

90 days without delivering the service or goods paid for. This is contrary to Regulation 98(2) of the Public Finance Management (National Government) Regulations, 2015, which states that advanced payment shall not be paid to supplier of services and goods unless provided for in the contractual terms and conditions contained in a valid contract signed between the procuring entity and the supplier.

Under the circumstances, the accuracy and fair statement of trade and other payables balance of Kshs.165,644,376 as at 30 June, 2022 could not be confirmed.

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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a total revenue final budget of Kshs.118,883,808 against actual receipts on a comparable basis of Kshs.74,452,699 resulting to revenue shortfall of Kshs.44,431,020 or 37% of the budget. Further, the budget is unbalanced contrary to Regulation 31(c) of the Public Finance Management (National Government) Regulations, 2015 which requires the budget to be balanced.

The revenue shortfall has negatively affected the Company's profitability and may impact on its sustainability.

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. Presentation of the Financial Statements

The statement of performance against predetermined objectives, the Management Team, and the corporate governance statement have not been included in the financial statements. This is contrary to Section 81(1)(f) of the Public Finance Management Act, 2012 which requires the Accounting Officer to include the statement of the Company's performance against predetermined objectives. Further, the financial statements have not been signed by the Head of Finance and the page numbering not in compliance with the Public Sector Accounting Standards Board template.

Under the circumstances, the financial statements have not been prepared in accordance with the Public Sector Accounting Standards and reporting template.

2. Non-Remittance of PAYE

The statement of profit and loss and other comprehensive income reflected administration costs of Kshs.76,694,818. The amount includes staff costs totalling to Kshs.55,059,050 which included Pay as You Earn (PAYE) amount of Kshs.5,187,106 for which only Kshs.412,998 was remitted to KRA leaving a balance of Kshs.4,774,108 unremitted. This is contrary to Section 130(10) of the Income Tax Act, Revised 2014 which stipulates that, before the tenth day following the end of every month or before any other day which may be notified by the Commissioner, an employer shall pay to such person as the Commissioner shall direct, tax deducted during that month.

Management was therefore 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, 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 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease its 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 Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how 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 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 Company's 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 Company's 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 Company 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 Company 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

10 May, 2023