REPORT OF THE AUDITOR-GENERAL ON MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Masinde Muliro University of Science and Technology set out on pages 29 to 74, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the University 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 do not comply with the Universities Act, 2012.

Basis for Adverse Opinion

1. Revenue from Tuition and Related Charges

The statement of financial performance for the year under review reflects tuition and related charges of Kshs.1,035,336,426 together with the student debtors brought forward of Kshs.1,220,107,856 amounting to total fees receivable of Kshs.2,255,444,282. However, only Kshs.953,338,560 representing 42% was collected during the year under review, leading to a balance of Kshs.1,302,105,722 or approximately 58% uncollected as at 30 June 2018 contrary to the University Semester Studies and Fee Payment Policy 2016 Item 3.1 which requires students to pay all the fees before reporting for semester studies at the university and that no student should proceed for field attachment or any form of third semester studies without payment of the fees.

However, no reason was provided by the management for partial adherence to the fee payment policy and subsequently allowing students to report for semester studies at the university or students proceeding for field attachment and third semester studies before payment of the fees. In addition, the sub-ledger balances were noted to have been netted off and the appropriate balances brought forward could therefore not be traced in the student ledger statements.

Further, it was noted that 219 students who had fee balances totalling Kshs.20,706,047 brought forward from previous year were invoiced with negative balances of Kshs.10,363,316 thereby reducing their accounts with an amount Kshs.10,363,316 while other 14 students who had nil prior year balances were invoiced with negative advices of Kshs.106,704 and therefore ending up with over payments of Kshs.278,295 thus distorting the accuracy of the balances of tuition and related charges.

2. Provision for Bad Debts

The statement of financial performance for the year ended 30 June 2018 reflects provision for bad debts figure of Kshs.11,163,821. However, the supporting note 15 does not show how the figure was derived as required by IPSAS 30.

Consequently, the accuracy and completeness of Kshs.11,163,821 for provision for bad debts could not be confirmed

3. Receivables from Exchange Transactions

The receivables from exchange transactions balance reflects Kshs.1,325,508,898 comprising of Income Generating Units(IGU) receivables, prepaid expenses, provision for unbanked cash, receivable recurrent grants and student debtors balances. In addition, the student debtors receivables figure of Kshs.1,302,105,722 differs with the amount of Kshs.1,328,744,311 generated from the ABNO UniSol ERP Systems resulting to an unexplained difference of Kshs.26,638,589. Further, examination of the ABNO UniSol ERP System generated student debtors' receivables reveals that the system may not have been fool proof in input and processing of the data. As a result, re-computations based on the system data on student debtors produced a balance of Kshs.1,356,140,321 which varies with the figure in Note 17 of Kshs.1,302,105,722 by an unexplained and unreconciled difference of Kshs.54,034,599. Consequently, it has not been possible to confirm that receivables from exchange transactions balance of Kshs,1,325,508,898 is fairly stated.

4. Property, Plant and Equipment

The University had previously carried out a revaluation on selected classes of assets according to provisions of IPSAS 17, under the revaluation model. A revaluation reserve of Kshs.11,119,725 is included on the statement of changes in net assets. However, the following have not been disclosed as required by International Public Sector Accounting Standard No.17:

(i) The effective date of the revaluation and whether the valuation was done by an independent and competent valuer;

(ii) the revaluation surplus, including changes during the period and any restrictions on the distribution of the balance;

(iii) For each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model.

(iv) The current year depreciation component of revalued assets had not been transferred from the revaluation reserve to the accumulated revenue reserves on the statement of changes in net assets.

Consequently, the management was in contravention of International Public Sector Accounting Standard No.17.

5. Biological Assets

The biological assets balance reflects Kshs.320,000 as at 30 June 2018. However, there is no disclosure in the financial statements as required by IPSAS 27 to describe the nature of activities the University uses the biological assets for and non-financial measures or estimates of physical quantities of output during the period.
In view of the foregoing, it has not been possible to confirm that biological assets balance of Kshs.320,000 as at 30 June 2018 is fairly stated.

6. Trade and Other Payables from Exchange Transactions

The trade and other payables from exchange transactions balance reflects Kshs.589,116,268 as at 30 June 2018 and which in turn includes balance of Kshs.201,293,735 as disclosed in note 24 to the financial statements that were not analysed and supported as detailed below:

Balance Details	Amount (Kshs)	Remarks
Accounts Recurrent Payables	73,006,869	These are pending accounts due from various suppliers whose analysis and documentation was not provided, including previous balances. The propriety of this amount could not therefore be verified.
HELB Control	54,487,304	These are remittances from HELB which the university had not been able to identify and post to the respective students' accounts. Further analysis revealed that some of the students could not be traced in the system.
Projects Retention Money	41,438,205	These are recoveries for retention funds deducted from contractors but could not be analysed due to lack of a retention register. It was not clear how deductions can be made but it is not known from which contractors.
CDF Control	32,361,357	These are bursaries from the CDFs whose details were not posted into the students accounts and were therefore hanging in the records
Total	**201,293,735**	

Consequently, it has not been possible to confirm that trade and other payables from exchange transactions balance of Kshs.589,116,268 is fairly stated.

7. Refundable Deposits from Customers

The refundable deposits balance reflects Kshs.320,068,284 as at 30 June 2018 comprising prepayments of Kshs.222,177,031, old student debts of Kshs.68,846,353 and caution money of Kshs.29,044,900 as disclosed in note 25 to the financial statements. However, it was noted that though the prepayments balance of Kshs.222,177,031 reconciled with the schedule provided for audit review, it differed with the re-computed balance of Kshs.85,805,294 based on the data obtained from the Abno-Unisol systems ledger, resulting into an unreconciled variance of Kshs.136,371,737. In addition, the prepayments figure of Kshs.222,177,031 and old student debts figure of Kshs.68,846,353 included some prepayments that have been outstanding for more than seven years. Also, the refundable deposits from customers total of Kshs.317,846,284 as detailed under note 25 to the financial statements differ with Kshs.320,068,284 reflected in the statement of financial position.

As a result of variations in figures reflected in records maintained by the University and those in the statement of financial position and the corresponding note (25), it has not been possible to confirm that the refundable deposits from customers of Kshs.320,068,284 as at 30 June 2018 is fairly stated.

8. Prior Year Adjustment

The statement of changes in net assets for the year ended 30 June 2018 reflects a prior year adjustment of Kshs.9,544,178 under accumulated revenue reserves. However, the adjustment has not been explained or a disclosure made in the financial statements to explain what the adjustment relates to.
Consequently, the accuracy statements of changes in net assets as well as statement of cashflows could not be confirmed.

9. Unresolved Previous Year Audit Issues

The following issues reported in the previous year and which have an impact on the accuracy, presentation and disclosure of the current financial statements have remained unresolved:

(i) Trade and other payables from exchange transactions not fairly stated as at 30 June 2017.

(ii) Unsupported and reconciled cash and cash equivalents as at 30 June 2017.

(iii) Un-explained adjustments of Kshs.638,407,401 on revenue surplus.

(iv) Irregularities and unsupported adjustments on property, plant and equipment.

The failure to resolve these matters and re-state the prior period financial statements continue to affect the accuracy of subsequent financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Masinde Muliro University of Science and Technology 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 adverse 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 of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit section of my report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

Key Audit Matters

No.	Key Audit Matter	How the Audit Addressed the Key Audit Matter
1	**Academic (Teaching, Research and Extensions) Expenses**	
	The statement of financial performance reflects academic (teaching, research and extensions) expenses figure of Kshs.322,404,325. There was risk of misstatement by charging ineligible expenditure or mixing up or duplication with general expenses. The expenditure item is also key in determining the efficiency of delivery of the core mandate of the University of research.	The following audit procedures were performed: • Reviewed the budget to establish the provision for both academic and general expenses. • Established the criteria for classification of the expenses and confirmed from the chart of accounts. • Checked that there is distinct coding for the expenditure with appropriate approvals from the relevant authorized persons. • Analysed expenditure amounts/items against other related records and obtained reconciliations or explanations for any variances.
2	**Revenue from Exchange Transactions**	
	The statement of financial performance reflects revenue from exchange traction figure of Kshs.1,073,460,056. The component has a high risk of misstatement due to the	The following audit procedures were performed: • Reviewed the budget to establish the provision for the revenue from exchange transactions and established reasons for unusual variances • Checked that there is distinct coding for each class of revenue and applicable rates defined

	numerous sources/classifications. It is also susceptible to fraud. There are also challenges about how this revenue is recognized and determination of the cut-off point given the nature of operations of the University	• Confirmed that the recording of the revenues in the ledger is complete from source records. • Obtained system reports for all classes of revenue and confirm the summaries to the ledger and source records. • Established the designated revenue accounts and checked any corrections and unusual movements of accounts. • Checked that the recognized and recorded revenues are as per the defined recognition criteria and cut-off. • Evaluated amounts of revenue against management reports, related records and expenditure and obtain reconciliations or explanations for variances.

Other Matter

1. Non-adherence to Occupational Safety and Health Act (OSHA)

Although the University has mainstreamed the requirements of the Occupation Safety and Health Act, 2007 under Section L.2 of human resource policies and procedures manual, the standing committee on OSHA was not functional and the University has not been following up the matters pertaining to the requirements of OSHA. For example, the minutes of the committee meetings and safety and health audit reports for the period under review or any other period were not availed for audit review contrary to Section 11 (1) of the Safety and Health Audits which requires that the occupier of a workplace shall cause a thorough safety and health audit of his workplace to be carried out at least once in every period of twelve months by a safety and health advisor, who shall issue a report of such an audit containing the prescribed particulars to the occupier on payment of a prescribed fee and shall send a copy of the report to the Director.

The management is therefore in breach of the law and occupational safety and health status of the University as a workplace cannot therefore be assured.

2. Lack of Annual Environmental Audit Report

During the year under review, there were no follow up reports made on any Environmental Impact Assessment Reports for the University projects that have been undertaken or being undertaken. This contravenes Section 34 (1) of the Environmental (Impact Assessment and Audit) Regulations, 2003 which states that in executing a project, after the environmental impact assessment study report has been approved by the Authority, or after the initial audit of an ongoing project, the proponent shall take all practical measures to ensure the implementation of the environmental management plan. Further there was no environmental audit report to show that annual environmental audit was undertaken during the year as required by Environmental Management and Coordination Act (EMCA) Regulations.

Consequently, the University breached the law and may be cited and suffer penalties for failure to comply with the law.

3. Failure to Undertake an Investment Grade Energy Audit

The University has not developed clear energy management policy and undertaken an energy audit contrary to Section 5 and 6 of the Energy Management Regulations, 2012 which requires institutions to develop a clear energy management policy and undertake an energy audit at least once every three years. Further, the University runs a chain of backup generators requiring fuel and had not invested in economical lighting systems and has also not prepared and presented an energy investment plan nor undertaken an energy audit as required.

Consequently, the management breached the law and the University operations cannot be confirmed to be on an efficient energy system.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Report on Lawfulness and Effectiveness in Use of Public Resources below and in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Supply, Delivery, Installation, Testing and Commissioning of CCTV Cameras, Automated Gate and Biometric System

During the year under review, the University initiated the tender process for supply, delivery, installation, testing and commissioning of CCTV cameras and the contract was awarded to a local security company on 23 April 2018 at a cost of Kshs.14,070,733. According to the notification of award letter, the contract was to be signed within 14 days from the date of award. Similarly, the University initiated another tender for the same job description and awarded contract to another firm on 23 April 2018 for a contract sum of Kshs.23,618,500. According to the notification of award, the contract was to be signed within 14 days from the date of award.

However, as at the time of this audit, the University had not signed the contract agreements almost 8 months after the awards were made and no explanation has been provided for not signing the contracts contrary to Section 63(1) of the Public Procurement and Assets Disposal Act, 2015, which states that an accounting officer of a procuring entity, may, at any time, prior to notification of tender award, terminate or cancel procurement or asset disposal proceedings without entering into a contract.

Consequently, the management breached the law and risks incurring nugatory expenditure through voidable court proceedings and fines.

4. Unsupported Expenditure on Academic Expenses

The academic (teaching, research and extensions) expenses figure of Kshs.322,404,325 for the year under review include payments totalling Kshs.5,890,988 that were not properly supported with requisite payment documents and approvals contrary to Section 104 (1) of the Public Finance Management (National Government) Regulations, 2015 which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation. In addition, payments totalling Kshs.3,246,500 in respect of training expenses were not supported by requisite documentation.

Consequently, the propriety of the total expenditure of Kshs.9,137,488 for the year under review could not be confirmed.

5. Repairs and Maintenance – Expenditure not Properly Supported

The repairs and maintenance expenses figure of Kshs.26,881,947 includes payments totalling Kshs.3,188,670 that were not adequately supported by delivery notes, requisitions, goods received notes and reports by inspection and acceptance committee contrary to Section 104 (1) of the Public Finance Management (National Government) Regulations, 2015 which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipts and payment vouchers and shall be supported by the appropriate authority and documentation. The payments are analysed below:

Voucher No.	Payee	Cheque No.	Description	Amount Kshs.	Remarks
15040	M/s Vickiat Electronics	052300	Supply of building materials to renovate hostels I, II, III, & IV	833,710	No evidence of delivery, no reports on requisitions based on assessments of works and supervision and completion certificate
15037	M/s Jaza Building Contractors	052306	“	1,756,600	“
15038	M/s Superior Products Africa Ltd	052299	“	598,360	“
Total				**3,188,670**	

Consequently, the propriety of the expenditure of Kshs.3,188,670 incurred on maintenance and repairs could be confirmed.

6. Outstanding Imprest

The receivables from non-exchange transactions balance of Kshs.40,420,067 represent staff imprest as disclosed in note 18 to the financial statements differ with the supporting schedule totalling Kshs.28,986,374, resulting into a variance of Kshs.11,433,693 which has not been reconciled. Although it was explained that the variance of Kshs.11,433,693 relates to imprests that were cancelled in the prior years, no documentary evidence was provided to support the cancellations. Further, the imprest balance of Kshs.40,420,067 includes imprests totalling Kshs.24,304,549 that should have been surrendered on or before 30 June 2018 contrary to Section 93(5 & 6) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest accounts or surrenders the imprest within 7 working days after returning to duty station failure to which the accounting officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate. A review of the position in November 2018 revealed that imprests totalling Kshs.21,653,222 had been surrendered leaving a balance of Kshs.7,333,152 unaccounted for.

Consequently, the accuracy and recoverability of the imprest balance of Kshs.40,420,067 as at 30 June 2018 could not be confirmed.

7. Contracted Services - Avoidable Expenses

The contracted services figure of Kshs.114,326,880 includes an expenditure of Kshs.2,435,479 incurred in respect of salary and allowances paid to an officer comprising Kshs.2,234,479 for wrongful dismissal and Kshs.201,020 for legal fee. The officer who was a storeman, was dismissed from University employment on 17 June 2015 after suspension for a period of over one year due to his failure to account for stores valued at Kshs.6,029. The suspension of over a year was contrary to Clause 12.2 (i) and (iv) of the Collective Bargaining Agreement (CBA) for Universities Non-Teaching Staff Union (UNTESU) which provides that where misconduct by an employee requires investigations, the employee may be suspended from duty with half pay for a period not exceeding 21 days whilst an inquiry is being carried out. If suspension exceeds 21 days, the employee shall be reinstated unless an agreement has been reached between the union and management to extend the period of suspension to allow more time for investigations or for a court case to be concluded.
The officer was dismissed by the University Vice Chancellor despite the disciplinary committee of the University Council recommendations which had stated that the officer be reinstated from suspension and be given a warning letter for not keeping proper records; and also be surcharged Kshs.20,600.
The officer subsequently filed a suit at the Employment and Labour Relations Court in Kisumu to contest the dismissal to which the Court found that the University Vice Chancellor's decision to dismiss the employee was ultra vires as he acted without authority and against University statutes. In the judgement signed and delivered on 22 September 2017, the Judge ordered the reinstatement of the salary of the officer with effect from 12 March 2014 and directed the University to meet the claimants cost of the suit. The payment of Kshs.2,435,479 excludes the costs of the suit due to the officer which he is yet to submit.
The expenditure of Kshs.2,435,479 together with the cost of the case that is yet to be submitted by the officer amounts to nugatory expenditure and was therefore avoidable.

8. Construction of Multipurpose Hall

The property, plant and equipment balance of Kshs.1,578,596,117 includes work in progress amount of Kshs.424,259,900 as disclosed in note 20 to the financial statements. The work in progress figure in turn include expenditure of Kshs.133,885,152 spent on the construction of a multipurpose hall. Information available indicates that the University awarded a tender to a contractor for construction of the hall at a contract sum of Kshs.69,987,541 on 29 June 2011. However, the contract was later on terminated on 28 November 2013 when an amount of Kshs.47,179,726 or approximately 67.4% of the contract sum had been paid to the contractor due to what was said to be non-performance.

The contract for completion of the building was later awarded to another firm on 21 July 2014 for a contract sum of Kshs.66,266,161 and was to be completed in 26 weeks, by 20 January 2015. However, the initial contractor went to court for arbitration and was subsequently awarded Kshs.10,478,792 being interest and penalty Kshs.7,105,420.17, arbitration cost Kshs.63,360 and legal fees of Kshs.2,420,811 all of which was paid during the year under review safe for interest which was paid on 6 November 2018 to bring total expenditure relating to the first contract to Kshs.67,248,109 as at 30 June 2018. The second contractor was paid a total of Kshs.66,637,043, bringing the total incurred on the project to Kshs.133,885,152.

However, management has not explained why the project which was to cost Kshs.69,987,541 ended up costing Kshs.133,885,152, resulting in excess cost of Kshs.63,897,611 or approximately 91.3% above the original contract sum. Further, although the management indicated that the project is complete and in use, no evidence was availed to confirm that the project has been completed, inspected, accepted and handed over.

Consequently, the public may not have obtained value for money in respect of Kshs.133,885,152 spent on the project and the propriety of the expenditure could not therefore be confirmed.

9. Property, Plant and Equipment - Slow Pace of Works and Default in Contract Implementation

The statement of financial position reflects property, plant and equipment balance of Kshs.1,578,596,117 as at 30 June 2018 which include work-in-progress valued at Kshs.424,259,900 as disclosed in Note 20 to the financial statements. The work-in-progress figure of Kshs.424,259,000 include payments totalling Kshs.173,526,918.59 incurred during the year on two projects shown below but were behind schedule:

Project Description	Amount (Kshs)
Proposed Design and Build Office Block & Associated Works	107,130,813.50
Proposed Design and Build Tuition Block & Associated Works	66,396,105.09
Total	**173,526,918.59**

These two projects were at different levels of completion and various challenges were cited for delayed progress of works as detailed below:

Project	Remarks
Build Office Block	According to the revised contract completion date, the University intended to occupy the building by 30 August 2018 but as at the time of the audit in November 2018, it was still not complete due to non-completion of electrical works by the sub-contractor. The main contractor had also failed in completion of the structured cable works. The project has also over run its budget following a variation order for additional cost quantified at Kshs.49,970,282 after the revision of the design and additional of a fifth floor; the floor plan was changed from 48 m by 26 to 48 m by 35 m to enhance usability; change of some office design from open to closed resulting to additional walls as well as finishing and electro-mechanical works; and, under provision for electrical and mechanical works. The initial budget was Kshs.199,194,250 but rose to Kshs.249,164,532 which is 25% more.
Tuition Block	The revised contract completion date of the project was 21 March 2018. However, as at the time of audit in November 2018, the project was still incomplete due lack of adequate key materials; failure to have an approved works program; insurance cover and failure to attend site meetings.

Consequently, the University may not have obtained value for money on Kshs.173,526,919 incurred on the two projects for the year ended 30 June 2018.

10. Consultancy for Provision of Accounting Services for Student Debtors

During the year under review, the University engaged a consultant to provide accountancy services after advertising and seeking requests for proposals to provide provisional services. A Certified Public Accountant firm was awarded the tender vide letter Ref No. MMU/COR:311069(69) dated 26 February 2018 for a contract sum of Kshs.3,805,780. An agreement was subsequently signed on 02 May 2018 detailing among others the scope of work to be undertaken and the expected deliverables as detailed in Item 3 and 7 respectively. As at 30 June 2018, the firm had been paid Kshs.1,141,734 which was 30% of the contract sum, in respect of an inception report leaving a balance of Kshs.2,664,046 being 40% payable upon submission of draft report and the final 30% upon the receipt by the University of an acceptable final report in accordance with the contract agreement.

According to the contract, the work was to be completed and final report submitted within six (6) weeks of commencement of the work. However, as at the time of audit in November 2018, the consultant had only submitted inception report. Although the balance of Kshs.2,664,046 was accrued and included in the recurrent payables balance of Kshs.73,006,869 as disclosed in note 24 to the financial statements, there was no evidence that the consultant had submitted a draft report and a final report acceptable to the University as per the contract agreement.

Further, although the consultant was to provide report of all students whose accounts had corrections and the nature of such corrections, performing and non-performing student debtors' reports, none was availed for audit review.
Also, the consultant was to prepare and submit a training report of staff in the receivables sections on the accounting practices and also give a report on the adequacy of internal control environment in the debtors' systems in place including the ABNO UniSol ERP system. However, no such reports were availed for audit review.

Consequently, the propriety of the expenditure of Kshs.3,805,780 incurred on consultancy services during the year under review could not be confirmed.

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, because of the significance of the matters discussed in the Basis for Report on Effectiveness of Internal Controls, Risk Management and Governance and Adverse Opinion sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

Duplicated Student Names and Admission Numbers

Analysis of the schedule supporting students tuition fees of Kshs.682,149,514 generated from the ABNO UniSol ERP System revealed that 806 cases with cumulative balance of Kshs.60,324,811 had duplicate numbers and names in the system. However, no reason or explanation was provided for the duplication although the ERP system is supposed to only accept a student number and particulars account once.

Consequently, the controls in the University student management system are weak and the accuracy and authenticity of the information generated including the student tuition fees figure of Kshs.682,149,514 for the year ended 30 June 2018 cannot be confirmed.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires 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 University'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 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 University's 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 University policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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's 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 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

19 June 2019