

# **REPORT OF THE AUDITOR-GENERAL ON CHUKA UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Chuka University set out on pages 26 to 64, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Chuka University as at 30 June 2017, 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 Chuka University Charter of 8 January, 2013.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### **Basis for Qualified Opinion**

#### **Property Plant and Equipment**

As reported in the previous years, included in the property, plant and equipment balance of Kshs.3,092,569,157 as at 30 June 2017 was a parcel of land namely Karingani/Ndagani/741 measuring 1.0 hectares valued at Kshs.7,500,000. However, although a letter of allotment dated 28 June 2011 was made available, the respective title deed was not availed for audit verification.

Further, the University's Sasini House LR Number 209/6002/2 in Nairobi purchased at a cost of Kshs.509,000,000 a year ago was still occupied by tenants' with unexpired leases ranging from 2 years 2 months to 6 years 4 months. No efforts have been initiated to renovate the building and establish the University's Nairobi Campus as had been planned.

In the circumstances, it was not possible to confirm ownership and accuracy of the property plant and equipment's balance of Kshs.3,092,569,157 as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Chuka University 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 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. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there were no Key Audit Matters to communicate in my report.

### Other Matter

#### 1. Budget Control and Performance

During the year under review, the university had an approved income budget of Kshs.1,648,165,333 comprising of Kshs.1,370,032,000; Kshs.243,133,333; and Kshs.35,000,000 for revenue, capital grants, and interest from investments respectively but only realized Kshs.1,584,078,983 resulting in under collection of revenue by Kshs. 64,086,350 as follow;

Item	Approved Budget (Kshs)	Actual Performance (Kshs)	Variance (Kshs)
<b>Revenue</b>			
GOK Recurrent Capitation	690,032,000	690,032,000	-
A-I-A / Internally Generated Funds	680,000,000	759,068,855	(79,068,855)
<b>Sub-Total</b>	<b>1,370,032,000</b>	<b>1,449,100,855</b>	<b>(79,068,855)</b>
<b>Others</b>			
GOK Capital Grants	243,133,333	107,333,333	135,800,000
Interest From Investments	35,000,000	27,644,795	7,355,205
<b>Sub-total</b>	<b>278,133,333</b>	<b>134,978,128</b>	<b>143,155,205</b>
<b>Grand Total</b>	<b>1,648,165,333</b>	<b>1,584,078,983.</b>	<b>64,086,350</b>

Further, in the year under review, the University had an approved expenditure budget of Kshs. 1,648,165,333 comprised of Kshs.1,113,417,579 for recurrent vote and Kshs.

534,747,754 for development vote but only Kshs.1,420,749,987 was spent resulting in under expenditure of Kshs. 227,415,346 as follows:

<b>Expenditure Item</b>	<b>Approved Budget (Kshs)</b>	<b>Actual Performance (Kshs)</b>	<b>Variance (Kshs)</b>
Personnel Emolument	660,000,000	653,104,487	6,895,513
Operations and Maintenance Expenses	418,417,579	409,597,772	8,819,807
Academic and Research	35,000,000	32,625,436	2,374,564
<b>Sub Total</b>	<b>1,113,417,579</b>	<b>1,095,327,695</b>	<b>18,089,884</b>
Construction of Structures	484,747,754	280,734,481	204,013,273
Purchase Plant, Machinery and Equipment	50,000,000	44,687,811	5,312,189
<b>Sub Total</b>	<b>534,747,754</b>	<b>325,422,292</b>	<b>209,325,462</b>
<b>Gross Total</b>	<b>1,648,165,333</b>	<b>1,420,749,987</b>	<b>227,415,346</b>

The Kshs.64,086,350 revenue shortfall and the Kshs.227,415,346 under expenditure creates doubt on the efficiency of the University's budgeting process as the resultant budget appears unrealistic.

In the circumstances, the unspent Kshs.227,415,346 and the Kshs. 64,086,350 revenue shortfall negatively impacts on capacity of the University to offer services to the University Community and its stakeholders as at 30 June 2017.

### **Responsibilities of Management and those Charged with Governance for the Financial Statements**

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 such 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.

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

Those charged with governance are responsible for overseeing the University's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the University's 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 County Assembly'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 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**

**28 June 2018**