

REPORT OF THE AUDITOR-GENERAL ON CHUKA UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Chuka University set out on pages 25 to 66 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, 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 Chuka 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 comply with the Universities Act, No 42 of 2012 of the Laws of Kenya.

Basis for Qualified Opinion

1.0 Property, Plant and Equipment

1.1 Ownership and Valuation of a Parcel of Land

As reported in the previous years, included in the property, plant and equipment balance of Kshs.3,643,723,615 as at 30 June 2018 is a parcel of land namely Karingani/Ndagani measuring 1.0 hectares valued at Kshs.8,500,000 (in 2016/2017 it was valued at Kshs.7,500,000). However, the respective title deed and revaluation report were not availed for audit verification.

In the circumstances, it has not been possible to confirm ownership status of the parcel of land and that the property, plant and equipment's balance of Kshs. 3,643,723,615 is fairly stated as at 30 June 2018.

1.2 Fully Depreciated Assets

Note 31 to the financial statements reflected property, plant and equipment stated at a total cost price of Kshs.4,151,033,477 as at 30 June 2018. However, included in Kshs.4,151,033,477 were fully depreciated assets comprising of plant and equipment, furniture and fittings, computer hardware and software costing Kshs.42,148,634, Kshs.17,565,894, Kshs.31,471,334 and Kshs.13,749,639 respectively all totaling to

Kshs.104,935,501. No explanation was availed as to why the fully depreciated assets had not been revalued or written off from the University's assets in line with International Public Sector Accounting Standard number 17 paragraph 44.

In the circumstances, the value of the depreciated assets stated at Kshs.4,151,033,477 as at 30 June 2018 could not be confirmed.

1.3 Net Book Value of Property, Plant and Equipment (PPE)

Note 31 to the financial statements reflected property, plant and equipment with a net book value of Kshs.3,643,723,615 as at 30 June 2018. However, this balance did not include computer software with a net book value of Kshs.2,218,128. As a result, the Kshs.3,643,723,615 was understated by Kshs.2,218,128.

In the circumstances, the accuracy of the property, plant and equipment net book value of Kshs.3,643,723,615 as at 30 June 2018 could not be confirmed.

2.0 Irregular Expenditure

Note 13 to the financial statements reflected Kshs.10,266,704 in respect to council expenses as at 30 June 2018 which included Kshs.1,534,493 incurred in the training of seven council members in Kenya School of Government (KSG) - Matuga for three (3) days - from 21 May to 23 May 2018. Included in the Kshs.1,534,493 was Kshs.39,600 paid the seven (7) council members being per diem for the three-days at Kshs.13,200 per day all totaling to Kshs.277,200. However, the training was full board catered for by the University and therefore the payment was irregular and not a proper charge to public funds.

In the circumstance, the value for money and the propriety of the Kshs.227,200 expenditure for the year ended 30 June 2018 could not be confirmed.

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 section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Budget Performance

The statement of comparison of budget and actual amounts for the year under review reflected a revenue and expenditure budget of Kshs.2,326,228,755 respectively and an actual revenue and expenditure of Kshs.2,163,032,493 and Kshs.2,059,298,288 respectively as analyzed below;

	Approved Budget (Kshs.)	Actual (Kshs.)	Under/(over) Expenditure or Revenue	Rate (%)
REVENUE				
GOK Recurrent Capitation	985,800,000	1,233,932,369	(248,132,369)	25
GOK Capital Grants	328,900,000	95,799,971	233,100,029	29
Internally Generated Funds (A.I.A)	922,000,000	778,633,506	143,366,494	15
Interest from Investment	55,000,000	54,666,648	333,352	1
Savings from University	34,528,755	-	34,528,755	100
Total	2,326,228,755	2,163,032,494	163,196,261	7
EXPENDITURE				
Personnel Emoluments	932,000,000	931,023,791	976,209	0.1
Council Expenses	14,000,000	10,266,704	3,733,296	27
Teaching demonstration units	450,000	410,116	39,884	9
Repairs and Maintenance expenses	16,200,000	13,293,459	2,906,541	18
Academic expenses	175,776,155	163,976,512	11,799,643	7
Students and Alumni expenses	10,600,000	10,239,717	360,283	3
Staff Welfare & Development expenses	6,000,000	3,239,084	2,760,916	46
Finance costs expenses	1,400,000	1,341,709	58,291	4
Depreciation and Armotization	97,000,000	95,957,752	1,042,248	1
Audit fees	1,392,000	696,000	696,000	50
General Operating expenses	228,571,736	181,407,372	47,164,364	21
Provision for bad debts	67,500	36,493	31,007	46
Capital Structures	767,821,364	577,418,408	190,402,956	25
Purchase of plant & equipment	74,950,000	69,991,171	4,958,829	7
Total	2,326,228,755	2,059,298,288	266,930,467	11

From the analysis, Chuka University had a revenue shortfall of Kshs.163,196,261 or 7% of the budgeted revenue and an under expenditure of Kshs.266,930,467 or 11% of the budgeted expenditure for the year ended 30 June 2018. Further, the statement of financial performance reflected a total actual revenue of Kshs.2,165,257,681 while the statement

of comparison of budget and actual amounts reflected a total actual revenue of Kshs.2,163,032,494 resulting to unexplained variance of Kshs.2,225,187.

In the circumstances, the under expenditure and revenue shortfall of Kshs.266,930,467 and Kshs.163,196,261 respectively could have affected the delivery of the services to the intended beneficiaries. Therefore, there is need for the University to relook at its budget making process with a view of focusing on areas of priority.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the 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 Procurement of Sports Gear and Equipment

Note 31 to the financial statements reflected plant and equipment stated at a cost value/ book value of Kshs.148,371,883 which include Kshs.3,245,840 spent on procurement of sports gear and equipment. However, a review of the procurement process, revealed the following irregularities;

- i. The procurement plan showed that the procurement of sports gear and equipment was reserved for youth, women and persons with disabilities. However, the company which supplied the goods was not listed in the Access to Government Procurement Opportunity Listings maintained by the Public Procurement Oversight Authority. The firm could therefore not have been eligible to participate in the procurement.
- ii. The Local Purchase Order (LPO) was raised on 28/06/2017. This was contrary to the provision of regulation 51 (1) of Public Finance Management (National Government) Regulations, 2015 which prohibits commitment of funds after 31 May for any financial year.

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

2.0 Procurement of Legal Services

Note 22 to the financial statements reflected Kshs.181,407,372 in respect to general operating expenses which included a total of Kshs.12,862,327 in respect to legal fees paid to three different private legal firms for provision of legal services to the University. However, the legal firms were procured and awarded the contract without the approval of the Attorney General contrary to Section 17(1) of the Office of the Attorney-General, Act 2012.

In the circumstance, the management of the University was in breach of law.

3.0 Short term Investment

Note 24 to the financial statements reflected cash and cash equivalents balance of Kshs.1,296,496,584 as at 30 June 2018 which included Kshs.100,000,000 in respect to fixed deposit in Equity Bank. However, no documentary evidence/ authority for the investment was availed for audit verification. This was in contrary to University Act, 2012 Section 49(2) which stipulates that a public University may, subject to approval of the Treasury or any other authorized body place on deposit with such other bank or banks as the public University may determine, any monies not immediately required for the purposes of the University.

Further, in the previous financial year Kshs.500,000,000 was put into a short term investment as fixed deposit in the same bank.

In the circumstances, the University 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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

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 Qualified Opinion section of my report, 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. The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 Chuka University's ability to 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 Chuka 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 money is applied in an effective way.

Those charged with governance are responsible for overseeing Chuka 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 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 Chuka University'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 Chuka University's ability to continue offering 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 Chuka University to cease to continue offering services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities 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

15 February 2019