

REPORT OF THE AUDITOR-GENERAL ON CHUKA UNIVERSITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Chuka University set out on pages 27 to 71, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the 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, 2019, 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 of the Laws of Kenya.

Basis for Qualified Opinion

1. Lack of Ownership Documents of Land

As previously reported, the statement of financial position reflects a property, plant and equipment balance of Kshs.5,550,693,142 which, as disclosed in Note 28 to the financial statements, includes an amount of Kshs.1,087,500,000 relating to land. However, the reported value of land included Kshs.25,000,000 relating to land parcel - LR.No.Karingani/Ndagani/741 measuring 1.0 hectares of which the University did not have ownership documents. Although the Management indicated the process of securing the Title was at an advanced stage, no documentary evidence was availed to confirm the status.

In view of the foregoing, the University's property, plant and equipment balance of Kshs.5,550,693,142 as at 30 June, 2019 could not be confirmed as fairly stated.

2. Offsetting of Assets and Liabilities

As disclosed in Note 24 to the financial statements, the reported bank and cash balance of Kshs.1,645,614,700 has been arrived at after offsetting the negative cash book balance of Kshs.1,945,264 relating to the Development Account held at Co-operative Bank instead of disclosing the balance under current liabilities as required under Paragraph 48 of International Public Sector Accounting Standards No.1 – Presentation of financial statements.

Under the circumstances, the accuracy of the financial statements could not be confirmed.

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

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, 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. Non-Competitive Recruitment of Employees

During the year under review, the University recruited twenty-eight (28) employees. However, review of records in support of the recruitments revealed that five (5) of the positions filled - three nursing officers at grade F, one fire fighter at grade IV and a farm attendant at grade II had not been advertised contrary to Section B.4 of the Public Service Commission - Human Resource Policies and Procedures Manual for the Public Service which provides for advertisement of all vacant posts.

In the circumstances, it could not be confirmed that the recruitment was undertaken on the basis of fair competition and merit.

2. Irregular Award of Contracts

Review of records relating to procurement of goods and services revealed that three (3) suppliers of food stuff were awarded contracts for supply of goods with a total value of Kshs.2,841,650. However, the suppliers were not in the University's list of prequalified suppliers for the financial year 2018/2019. Further, there was no evidence to show the suppliers had applied for registration pursuant to Section 71(2) of the Public Procurement and Asset Disposal Act, 2015.

In view of the foregoing, the competitiveness of the procurements and value for money on the expenditure could not be confirmed.

3. Non-Compliance with Financial Guidelines

The statement of financial performance reflects investment income of Kshs.267,250 (2018: Kshs.54,666,648) representing a decrease of Kshs.54,399,398 or 203%. Available information indicated that in the financial year 2017/2018, the University had invested in fixed deposits amounting to Kshs.600 million, Kshs.160 million and Kshs.250 million in Equity Bank, Family Bank and Co-operative Bank respectively, out of which interest income totaling Kshs.54,666,648 was earned. However, all the deposits were retired towards the end of the financial year 2017/2018 and only Kshs.20,000,000 was invested in Treasury Bills in the financial year 2018/2019. The rest of the funds were held in the banks.

The University therefore contravened the guiding principles for cash management which include avoiding accumulation of idle balances as stipulated under Regulation 83 (2) (c) of the Public Finance Management (National Government) Regulations, 2015. The University was also in breach of The National Treasury Circular Ref. DMD 4/02 'H' (63) of 26 March, 2018 which directed all State Corporations and SAGAs to invest surplus funds in Treasury Bills or Treasury Bonds directly through the Central Bank of Kenya.

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 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 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 overall 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 of services and using the going concern basis of accounting unless the Management is aware of 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 financial reporting process, reviewing the effectiveness of how the University 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 overall 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 misstatements, 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 overall 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 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 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

19 July, 2021