

REPORT OF THE AUDITOR-GENERAL ON CO-OPERATIVE UNIVERSITY OF KENYA FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Co-operative University of Kenya set out on pages 44 to 71, 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 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 Co-operative University of Kenya 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 University's Act, 2012.

Basis for Qualified Opinion

Work in Progress

Included in the work in progress balance of Kshs.343,409,030 under note 21 to the financial statements is Kshs.290,317,144 being value of work in progress for the construction of proposed erection and completion of lecture theatres.

Examination of work in progress records and other documents for this contract indicate that the value of works as at 30 June 2018 amounted to Kshs.401,920,201 which comprised of Kshs.348,696,551 and Kshs.53,223,650 being value of certified works as at 30 June 2017 and additional certified during the year. This balance is at a variance with the balance of Kshs.290,317,144 reflected in note 21 to the financial statements by Kshs.111,603,057.

Although management has explained that a revaluation of works was done by a new Project Manager engaged for the project, no explanations and analysis to support the impairment of Kshs.111,603,057 between the two valuations has been availed for audit review.

In the circumstances, the accuracy of work in progress figure of Kshs.343,409,030 as at 30 June 2018 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Co-operative University of Kenya 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 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 were no Key Audit Matters to communicate in my report.

Other Matter

Budgetary Control and Performance

The University Revenue had a total Revenue budget of Kshs.951,814,827 for the financial year 2017/2018 against an actual amount earned of Kshs.901,030,610 resulting in an under collection by Kshs.50,784,217 as summarized below:-

	Final Budget (Kshs.)	Actual Revenues (Kshs)	Under- collection revenue (Kshs.)	Under- collection revenue %
Revenue				
Unconditional Grants	260,969,563	260,969,557	(6)	0%
Conditional Grants	126,985,176	92,175,618	(34,809,558)	-27%
Tuition fees & Other Levies	395,060,088	427,388,566	32,328,478	8%
Rental revenue from facilities and equipment	2,100,000	2,353,076	253,076	12%
Income from Co-operative Retreat & Conference Centre	140,000,000	103,296,967	(36,703,033)	-26%
Other income	26,700,000	14,846,826	(11,853,174)	-44%
Total Revenue	951,814,827	901,030,610	(50,784,217)	-5%

Similarly during the year under audit the University had expenditure budget of Kshs.949,231,664 against actual expenditure of Kshs.866,428,797 resulting in net under-expenditure of Kshs.82,802,867 or 10% as detailed below.

	Final Budget	Actual Expenditure	Over/Under Expenditure	Over/(Under) Expenditure %
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Expenses	Kshs	Kshs	Kshs	
Employee Cost	540,815,664	533,621,057	7,194,607	1%
Board Expenses	11,200,000	7,552,416	3,647,584	33%
Depreciation and amortization expense	25,000,000	33,113,930	(8,113,930)	-32%
Repairs and Maintenance	23,080,000	21,680,703	1,399,297	6%
General Expenses	349,136,000	270,460,692	78,675,308	23%
Total expenditure	949,231,664	866,428,798	82,802,867	9%

The under collection of revenue and under expenditure of Kshs.50,784,217 and Kshs.82,802,867 respectively may be due to over budgeting which may have a negative impact on implementation of planned activities and service delivery to stakeholders. There is need for the university to re-look at its budgeting mechanism and plan a realistic budget with the resources available to avoid over budgeting.

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, 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.

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on 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.

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

Report of the Auditor-General on the Financial Statements of the Co-operative University of Kenya for the Year Ended 30 June 2018

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 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 noncompliance. 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 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 or 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

4 March 2019