

REPORT OF THE AUDITOR-GENERAL ON KARATINA UNIVERSITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Karatina University set out on pages 1 to 29, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net asset, 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, the financial statements present fairly, in all material respects, the financial position of Karatina 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 Universities Act, 2012.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Other Matter section of my report, based on the procedures performed, I confirm that, nothing else 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 Opinion

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

Emphasis of Matter

Working Capital Management

We draw attention to the statement of financial Position on page 2 of the financial statement. According to the statement of financial position, total current assets as

at 30 June 2017 amount to Kshs.155,692,184 while current liabilities amount to Kshs.166,593,660. The university therefore operated on a negative working capital of Kshs.10,901,476. This condition indicates the existence of a liquidity problem that may cast significant doubt about the university's ability to meet its obligations as and when they fall due. The preparation of the financial statements on a going concern basis is dependent on the ability by the university to generate sufficient cash flows from operations, reduce expenditure and continued support from National Government and creditors to enable it pay debts as and when they fall due.

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 communicate in my report.

Other Matter

1. Payments for Enterprise Resource Planning (ERP)System

Note 22 to the financial statements for the year ended 30 June 2017 reflects intangible assets (computer software) additions figure of Kshs.5,106,208 paid to a consultant for Microsoft Dynamics NAV ERP system. Records indicate that on 14 February 2013 Karatina University entered into a contract with Coretec Systems and Solutions Limited a firm based in Nairobi for the supply, installation, testing, training, commissioning and maintenance of Enterprise Resource Planning (ERP) software at a contract sum of Kshs.11,900,000.

A review of implementation of the system and payments revealed that the total contract sum had been paid including an amount of Kshs.2,380,000 final payment made during the year under review. However, the consultant was paid additional amount of Kshs.1,856,000 for the ERP developer licence arrears for 2015 and 2016 which and for unexplained reasons was not included in the signed contract between the University and the consultant. The amount was to be paid to M/S Microsoft, failure to which would render the system obsolete. Further, during the year under review, the consultant was again paid an amount of Kshs.1,500,000 for service level and support for the Microsoft ERP system for a period of one (1) year commencing 22 June 2016. However tender documents including contract agreement and performance certificates were not provided for audit review.

In the circumstances, the validity and propriety of payments of Kshs.5,106,208 in respect of computer software and support services for the year could not be ascertained.

2. Construction of Proposed Resource Centre

A review of records revealed that Contract No.KarUC/RC/01/2011-2012 for construction of Proposed Resource Centre at Karatina University was awarded on

26 January 2012 to a firm based in Nairobi at a tender sum of Kshs.624,429,200. According to signed contract agreement works commenced on 13 February 2012 and was scheduled to run for one hundred and fifty-six (156) weeks period, thus the expected completion date was 13 February 2015.

However, a review of the projects records and physical inspection of the works carried out revealed that the level of completion of works as at 30 June 2017 stood at approximately Kshs.556,533,466 or 89% against two hundred and eighty (280) weeks or 179% of the contract period elapsed thus implying that the contractor was one hundred and twenty six (126) weeks behind schedule. Although the management attributes the delay in completion to delayed disbursements of funds by the National Government, there was no pending payments to the contractor as at 30 June 2017, implying that payments were up to date and were made against certified and completed works.

No measures appear to have been put in place on how the University is addressing this clearly unsatisfactory performance.

3. Construction of Proposed 750 Students' Hostel Block

Examination of records maintained in respect of contract No. KarUC/H/01/2011-2012 for construction of Proposed 750 students Hostel block at Karatina University revealed that the contract was awarded on 4 January 2012 to a construction company at a tender sum of Kshs.320,656,201.60 following a competitive tendering process. The works commenced on 16 January 2012 and were planned to run for a contract period of one hundred and four (104) weeks, thus the expected date of completion was set at 15 January 2014. However, an examination of project records indicated that the value of certified works and payments to the contractor as at 30 June 2017 stood at Kshs.313,158,880 representing approximately 98% of the contract sum against an elapsed contract period of two hundred and eighty four (284) weeks or 273%. The management has not provided satisfactory explanation for the slow progress of works which may lead to cost escalations.

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, disclosing, as applicable, matters related to going concern and using the going 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.

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 University's ability to continue as a going concern.

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.

- 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

16 October 2018