

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Laikipia University set out on pages 42 to 83, which comprise of the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in reserves, 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 Laikipia University as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance International Public Sector Accounting Standards (Accrual Basis) and comply with the Universities Act, 2012 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Lack of Ownership Documents - Land

As previously reported, property, plants and equipment balance of Kshs.2,030,723,264 as at 30 June, 2019 includes an amount of Kshs.194,835,000 representing the value of eighteen (18) parcels of land measuring a total of 947.9 acres. According to the ownership documents presented for audit verification, sixteen (16) parcels of land are still registered in the name of Egerton University.

Further, the University was allocated 5 acres of land by the defunct Municipal Council of Nyahururu, 100 acres by the defunct Town Council of Rumuruti and 600 acres by the defunct County Council of Samburu. However, ownership documents for the three parcels of land have not been obtained. These parcels of land measuring 705 acres and whose values have not been determined have not been included in the financial statements for the year ended 30 June, 2019.

2. Receivables from Exchange Transactions

As previously reported, the statement of financial position reflects receivables from exchange transactions balance of Kshs.201,852,859 which is net of provision for bad and doubtful debts amounting to Kshs.22,428,095 as disclosed in Note 22(i) to the financial

statements. The provision appeared inadequate since debts amounting to Kshs.143,567,081 relating to uncollected revenue from closed down collaborating colleges have remained outstanding for considerable a period of time. No explanation was provided on how the revenue will be collected from the closed campuses.

Further, included in the receivables balance is an amount of Kshs.2,251,012 relating to overpaid Pay As You Earn (PAYE) tax owing from Kenya Revenue Authority (KRA) in respect of deductions from lecturers for self-sponsored programme. No documentary evidence has been provided to show acknowledgement of overpayments by the Authority or claims for the amount.

In the circumstances, the validity and recoverability of the receivables from exchange transactions of Kshs.201,852,859 as at 30 June, 2019 could be confirmed.

3. Irregular Capitalisation of Expenses

As disclosed under Note 24 to the financial statements, the statement of financial position reflects an amount of Kshs.2,030,723,264 under property, plant and equipment which constitutes a work-in-progress balance of Kshs.1,085,359,594 in respect of various projects of the University. The balance includes an amount of Kshs.16,564,571 which relates to penalties for late payments to contractors' invoices for certified works. The penalties were wrongly capitalized under work-in-progress instead of being captured under recurrent expenditure. This treatment has the effect of overstating surplus and the value of the assets while understating the expenses during the year.

In the absence of proper adjustment of the financial statements, the accuracy of the statement of financial performance and the statement of financial position could not be confirmed.

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

Emphasis of Matter

Material Uncertainty in Relation to Sustainability of Service

During the year under review, the University's recorded a surplus of Kshs.63,344,683 (2018: Kshs.27,925,241) thereby reducing the accumulated deficit to Kshs.157,878,957 as at 30 June, 2019 (2018: Kshs.224,027,563). Although the University is on a recovery trajectory since 2014/2015 financial year, the current liabilities balance of Kshs.424,738,049 exceeded the current assets of Kshs.319,092,208 resulting to a

negative working capital of Kshs.105,645,841. The financial position is an indication of the existence of a material uncertainty which may cast significant doubt on the University's ability to sustain its services and meet its obligations as and when they fall due. The financial statements have been prepared on a going concern basis on the assumption that the University will continue to receive financial support from the Government and creditors.

My opinion is not modified based on the effects of this matter.

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 are no key audit matters 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 sections 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. Delay in Implementation of Projects

1.1. Construction of Buildings

As reported in the previous year, included in the property, plant and equipment balance of Kshs.2,030,723,264 as at 30 June, 2019 is work-in-progress amounting to Kshs.1,046,763,705 relating to construction of the University's gate, lecture theatre, library, administration block and science laboratory. Physical verification and review of relevant records revealed that projects worth Kshs.304,462,138 had been completed and in use but not yet capitalized due to lack of completion certificates. Further, other projects amounting to Kshs.741,460,567 had taken too long to complete with some spanning over eight years, and the contract period had lapsed. The University attributes the delay to non-performance on the part of the contractors despite substantial payments having been made.

Further, examination of records indicates that the contractors were paid excess amounts totalling to Kshs.130,170,434. Although the Management explained that the excess payments were in respect of variations of contracts, consultancy on architecture designs, mechanical & electrical works and other similar technical works which were contained in separate contracts, the assertion was not supported by any documentations. The

management has not given evidence of the steps it has taken to complete the projects given that the contracts period had lapsed.

In the circumstances, the value for money on the expenditure of Kshs.130,170,434 could not be confirmed.

1.2. Development of an Enterprise Resource Planning (ERP) Software

As previously reported, the University entered into a contract with a consulting firm, World System limited, to develop an Enterprise Resource Planning (ERP) software at a cost of Kshs.14,949,200. The University paid Kshs.9,329,200 in 2013/2014 financial year which was 62% of the contract sum and an additional Kshs.84,000 in the 2016/2017 financial year. The implementation period was to run between 22 May, 2012 to 22 May, 2013 but the project was yet to be fully implemented six years after the implementation period had lapsed, and remained incomplete. According to the signed contract documents, the project was to have five (5) developers working on the system but only two (2) were appointed by the consultant.

Further, available information indicates that the University is in the process of terminating the contract and a procurement process for a new ERP software has commenced, implying that the old software will not be useful upon commissioning of a new one.

In the circumstances, implementation of the ERP software is uncertain and it is doubtful whether the University will obtain value-for-money on the expenditure of Kshs.9,413,200 so far incurred in respect of the ERP software.

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, 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 internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Weaknesses in Payroll Management System

A review of the University's Enterprise Resource Planning (ERP) and Quick Pay Data for the management of payroll through the system in place for management of payroll revealed lack of segregation of duties thus compromising the integrity of data in the system. The test revealed that the Administrator user group in Uniplus can complete all the steps from data capture (data entry) to payroll production. The system security and data integrity are therefore compromised and unreliable.

In the circumstances, it is not possible to confirm the effectiveness of the Payroll management systems or whether strong control measures have been put in place

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 processes and systems of internal control, risk management and overall 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 the Council Members

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 ability of the University to continue a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management is aware of the intention to liquidate the University or 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 University's 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 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 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 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 applicable 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 of Laikipia University 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 concern.
- 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 Laikipia 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

30 April, 2021